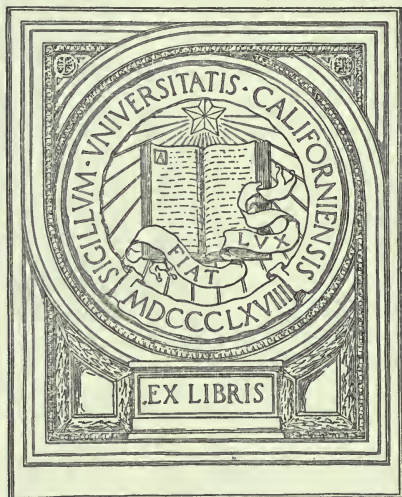




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BANKING, CREDITS AND FINANCE

BY

THOMAS HERBERT RUSSELL, A. M., LL. D.

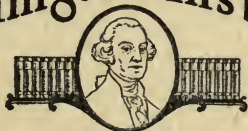
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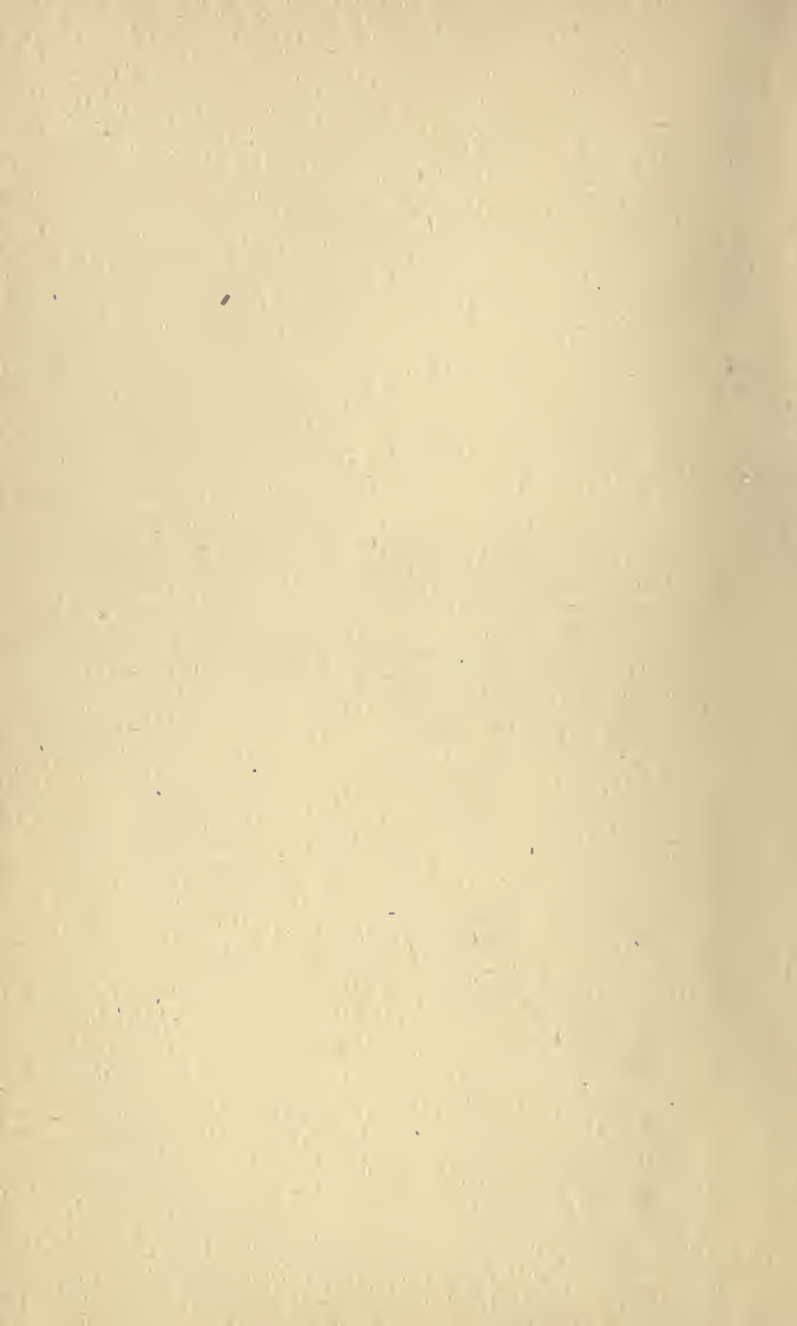
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reg. J. J. P. S.

GIFT

Lewis

“Business men do not realize how closely their banks watch them—how much the bank is bound to know about their affairs—how much seemingly small things in their daily lives affect credit. And big things that they sometimes want to conceal, too.”



“It must be said, and said whatever men may think of it, that the finances touch everything, help everything, conclude everything. They are in the state what blood is in the veins of the human body; if it circulates, it carries along with it motion and life; if it stops, paralysis and death supervene. Good organization, good administration, a good condition of the finances, exert, therefore, imperiously, everywhere and always, a positive, healthful and vivifying action upon the government of a country and the prosperity of its people.”

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**BANKING
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INTRODUCTION.

At first sight it may seem that the study of principles and methods of Banking and Finance might be confined to those engaged in the business of banking or concerned with the actual problems of high finance; but a brief consideration of the matter will soon enable the student of modern business to decide for himself that the more he knows about banking and financial management of concerns large and small, the better equipped he will be to seize the fleeting opportunities of twentieth-century business life.

It is not only bankers and young men who aspire to become bankers or financiers, therefore, they may profitably study the theories, history and practice of banking and finance. Business men of all classes, and ambitious young men generally, may devote time and attention to these subjects with almost absolute certainty that the knowledge thus acquired will greatly profit them sooner or later.

Every business man has more or less to do with banks and banking. It stands to reason, therefore, that he cannot obtain too much knowledge of banking methods. The greater his business, the more need he has of specialized knowledge on the subject. It is an important part of a liberal education in Business Administration.

It may be remarked in passing, that the opportunities offered to young men trained in matters of finance were

never so great or so numerous as they are at the present day. The general demand for specialized knowledge in business is fully exemplified by the strong demand for young men fitted by study to enter the employ of the great banks and financial houses that are a notable outgrowth of modern business. It is realized by financiers generally that the young men thus partially equipped for their service afford splendid material for the practical training in banking and financial management which can be obtained only by actual experience in the bank, trust company, or other financial institution.

It must never be forgotten that the bases of all success in the business world of today are Character and Knowledge. These may well be linked together side by side, since it takes a man of character to enter upon the conscientious pursuit of knowledge. The young man who possesses this combination—character and knowledge—is the young man bankers and financiers are looking for.

Economics.—As the groundwork for study of Banking and Finance, some knowledge of economics is desirable, especially that portion of the science which deals with the theory of money, the standards of value, and the relation of commerce and credit. The student should fully realize the importance of the subject of finance, and this can hardly be over-estimated; for, as a French writer sagely remarks. “It must be said, and said whatever men may think of it that *the finances touch everything, help everything, conclude everything*. They are in the state what blood is in the veins of the human body; if it circulates, it carries along with it motion and life; if it stops, paralysis and death supervene. Good organiza-

tion, good administration, a good condition of the finances, exert therefore imperiously, everywhere and always, a positive, healthful and vivifying action upon the government of a country and the prosperity of its people."

Realizing the importance of the finances in the public economy, the student will readily understand the utility of banking in all commercial communities. He will learn how the banker stands between the capitalist and the borrower, as the medium whereby arrangements are made for carrying on and expanding domestic trade and international commerce. He will see why the banker becomes a prominent and esteemed citizen of the community, and how great is the banker's influence, individually and collectively, in keeping business on a safe basis; checking the over-enthusiastic and the purely speculative, but ever promoting enterprise on the part of worthy men.

History of Banks and Banking.—A knowledge of the history of banks is desirable because it gives a clearer understanding of the essential principles on which modern banking systems are founded. The time spent in studying the historical sections of this volume will therefore be well spent, and these sections will be found extremely interesting in their presentation of the subject.

Classes of Banks.—The various classes of banking institutions in all parts of the world are dealt with. Under this heading, we note the distinction between public and private banks and deal with the national banks and state banks in the United States, and with the Canadian banking system. The subject of savings banks re-

ceives due attention, and the modern development of loan and trust companies is fully treated.

Deposits and Depositors.—In this branch of the general subject, the student will learn how bank accounts are opened; how checks are drawn, indorsed, certified, etc.; and how the deposits are handled by the bank; also the rights and duties of depositors.

Laws of Banking.—It will be advisable to obtain some knowledge of the laws under which banks are organized and operated, and these are presented in convenient form for study and reference.

Bank Organization.—The various steps attending the organization of a bank, particularly in the United States and Canada, are clearly shown, also the duties of directors and officers; the functions, rights and obligations of shareholders; requirements as to meetings, etc.

Bank Circulation.—As part of the monetary system, bank circulation is treated at length. The principles and methods of making bank note issues in the United States and Canada receive particular attention.

Negotiable Paper.—The manner in which a bank handles commercial paper and other negotiable instruments is not only an important but an interesting feature of the subject of banking, hence it should and does receive considerable attention. In this connection the subject of bank collections is also dealt with.

Loans.—One of the most responsible duties of a banker is the making of loans. The methods used in banks to judge of the reliability and credit of applicants for loans will well repay study, and all engaged in business should have considerable knowledge on the point.

Bank Credits.—In recent years, bank credits have been reduced practically to a science. We shall see how this has been brought about, and incidentally study the whole question of commercial reports in connection with bank credits.

Collections.—The methods by which a bank makes its collections on commercial and other negotiable paper are discussed. These too have been systematized within the past few years and the student of business can assimilate with advantage all the information given on the subject.

Clearing Houses.—The study of banking would be incomplete without some knowledge of the system whereby the work of banks is facilitated by means of clearing houses. The clearing house is remarkable among modern developments of business as an institution for the exchange and settlement of checks drawn on a variety of banks. It greatly economizes time, money and labor. The methods, membership, authority, and organization of clearing houses are discussed, and the operations of clearing and payment of balances are fully described.

Bank Reserves.—It is astonishing how many men of business, otherwise well informed, lack precise information upon such matters as the nature of bank reserves and government requirements regarding the reserve. Of late years, there has been a tendency on the part of banks to give the public a better understanding of their periodical reports, while the movement toward a central reserve bank has by its propaganda added to the general information on the subject, but the average business man and all students of business may well read up on this

point, since it is an important feature of American banking. No one can be said to understand the methods of banking unless he understands the question of the reserve; hence the matter is discussed at length in these pages.

Postal Savings Banks.—The postal savings bank systems of Europe, particularly that of Great Britain, need to be understood in order that we may intelligently consider the mooted question of the establishment of a similar system in the United States. Canada follows the British system to a considerable extent.

Domestic and Foreign Exchange.—The question of exchange in its relation to commerce, both domestic and foreign, and to international affairs generally, is of the utmost importance. All matters pertaining to foreign exchange are particularly interesting, and a complete discussion of the question by an acknowledged authority will be found in the chapters devoted to the subject.

Investments.—All business men are interested in the subject of investments, hence it is well to study the various kinds of investments offered to capital, and to obtain an idea of the relative value of each. The chapter on this subject is from the pen of an investment expert of international reputation, a Western banker held in universal esteem.

Corporation Finance.—In modern business, banks, trust companies, and private bankers frequently undertake to finance commercial enterprises and public undertakings, hence the subject of corporation finance is closely interwoven with that of banking, and some time and

attention may profitably be devoted by the student to this subject.

Monetary Systems.—Every student of business should have a thorough understanding of the monetary system of his own country. We have fully described the monetary system of the United States in two parts,—first the coinage of gold and silver, and second, the paper money,—and have also given a historical review of the monetary events of the world since 1786, which will be found extremely useful for reference.

Government, State and Municipal Bonds.—The nature of government bonds and of other securities based on state and municipal obligations affords a wide field for study. The bond business is a great and growing branch of modern affairs, and there is no branch in which close and constant study of the situation is more imperatively necessary than in this. We have sketched the broad principles underlying bond issues, and the safeguards that experience has thrown round about them. All that is said upon the subject in the following pages is worthy of study.

Booms, Panics and Depressions.—Some space is devoted to an examination into the causes of panics and depressions, of which a close study has been made by many eminent writers on finance. The question of booms and their effect also receives attention. These conditions occur and recur in Europe and in America. The English-speaking public on both sides of the Atlantic seem particularly susceptible to both booms and depressions, save perhaps in the case of Canada, where public sanity usually prevails to a remarkable degree.

The method followed throughout this work has been to deal chiefly with principles and methods of more or less general application rather than with individual or local methods. This is for the advantage of the great majority of students of business,—for the greatest good of the greatest number, who will be enabled by a knowledge of the general principles and methods of banking and finance to comprehend individual or local variations in method where these may occur.

CHAPTER I.

ORIGIN AND USE OF MONEY.

The true origin and function of money were expounded at least as early as the second century, when the great Roman Paullus wrote: "The origin of buying and selling is in *exchange*. Formerly there were no coins, and merchandise was in no way distinguished from money. Every man, according to the necessity of the time and of things, exchanged what was useless to him for what was useful, and it was generally the case that what one had abundance of, another was deficient in. But as it did not always easily happen that when one person had what another desired, that other had also what the first desired, a substance was chosen whose general and durable value obviated the difficulties of exchange by being a *common measure*. This substance, having received a public stamp, has use and value less as a material than as a quantity, and is no longer called merchandise, but *money*."

Man Lives by Exchange.

When the division of labor has been once thoroughly established in a community, says Adam Smith, it is but a very small part of a man's wants which the produce of his own labor can supply. He supplies the far greater part of them by exchanging that surplus part of the produce of his own labor, which is over and above his own consumption, for such parts of the produce of other

men's labor as he has occasion for. Every man thus lives by exchanging or becomes in some measure a merchant, and the society itself grows to be what is properly a commercial society.

But when the division of labor first began to take place, this power of exchanging must frequently have been very much clogged and embarrassed in its operations. One man, we may suppose, has more of a certain commodity than he himself has occasion for, while another has less. The former consequently would be glad to dispose of, and the latter to purchase, a part of this superfluity. But if this latter should happen to have nothing that the former stands in need of, no exchange can be made between them. The butcher has more meat in his shop than he himself can consume, and the dairyman and the baker would each of them be willing to purchase a part of it. But they have nothing to offer in exchange, except the different productions of their respective trades, and the butcher is already provided with all the bread and milk which he has immediate occasion for. No exchange can, in this case, be made between them. He cannot be their merchant, nor they his customers; and they are all of them thus mutually less serviceable to one another. In order to avoid the inconvenience of such situations every prudent man in every period of society, after the first establishment of the division of labor, must naturally have endeavored to manage his affairs in such a manner as to have at all times by him, besides the peculiar produce of his own industry, a certain quantity of some one commodity or other, such as he imagined few people would be likely to refuse in exchange for the produce of their industry.

Early Mediums of Exchange.

Many different commodities, it is probable, were successively both thought of and employed for this purpose. In the rude ages of society, cattle are said to have been the common instrument of commerce; and, though they must have been a most inconvenient one, yet in old time we find things were frequently valued according to the number of cattle which had been given in exchange for them. The armor of Diomedes, says Homer, cost only nine oxen; but that of Glaucus cost a hundred oxen. Salt was formerly the common instrument of commerce and exchanges in Abyssinia; a species of shells in some parts of the coast of India; dried cod in Newfoundland; tobacco in Virginia; sugar in some of the West Indies; hides or dressed leather in other countries; and as late as Adam Smith's day there was a village in Scotland where it was not uncommon for a workman to carry nails instead of money to the baker's shop or the ale-house.

Use of Metal as Money.

"In all countries, however, men seem at last to have been determined by irresistible reasons to give the preference, for this employment, to metals above every other commodity. Metals cannot only be kept with as little loss as any other commodity, scarce anything being less perishable than they are; but they can likewise, without any loss, be divided into any number of parts, as by fusion those parts can easily be reunited again; a quality which no other equally durable commodities possess, and which more than any other quality renders them fit to be the instruments of commerce and circulation.

“The man who wanted to buy salt, for example, and had nothing but cattle to give in exchange for it, must have been obliged to buy salt to the value of a whole ox, or a whole sheep, at a time. He could seldom buy less than this, because what he was to give for it could seldom be divided without loss; and if he had a mind to buy more, he must, for the same reasons, have been obliged to buy double or triple the quantity, the value, to wit, of two or three oxen, or of two or three sheep. If, on the contrary, instead of sheep or oxen, he had metals to give in exchange for it, he could easily proportion the quantity of the metal to the precise quantity of the commodity which he had immediate occasion for.”

Various Metals Used.

Different metals have been made use of by different nations for this purpose. Iron was the common instrument of commerce among the ancient Spartans; copper among the ancient Romans; and gold and silver among all rich and commercial nations.

Those metals seem originally to have been made use of for this purpose in rude bars, without any stamp or coinage. Thus we are told by Pliny, upon the authority of Timæus, an ancient historian, that, till the time of Servius Tullius, the Romans had no coined money, but made use of unstamped bars of copper, to purchase whatever they had occasion for. These rude bars, therefore, performed at this time the function of money.

The use of metals in this rude state was attended with two very considerable inconveniences; first, with the trouble of weighing; and, secondly, with that of assaying them. In the precious metals, where a small difference

in the quantity makes a great difference in the value, even the business of weighing, with proper exactness, requires at least very accurate weights and scales. The weighing of gold in particular is an operation of some nicety. In the coarser metals, indeed, where a small error would be of little consequence, less accuracy would, no doubt, be necessary. Yet we should find it excessively troublesome, if every time a poor man had occasion either to buy or sell a copper's worth of goods, he was obliged to weigh the copper coin.

The operation of assaying is still more difficult, still more tedious, and, unless a part of the metal is fairly melted in the crucible, with proper dissolvents, any conclusion that can be drawn from it is extremely uncertain.

Before the institution of coined money, however, unless they went through this tedious and difficult operation, people must always have been liable to the grossest frauds and impositions, and instead of a pound weight of pure silver, or pure copper, might receive in exchange for their goods an adulterated composition of the coarsest and cheapest materials, which had, however, in their outward appearance, been made to resemble those metals.

Origin of Coinage.

To prevent such abuses, to facilitate exchanges, and thereby to encourage all sorts of industry and commerce, it has been found necessary, in all countries that have made any considerable advances toward improvement, to affix a public stamp upon certain quantities of such particular metals as were in those countries commonly made use of to purchase goods. Hence the origin of coined

money, and of those public offices called mints; institutions exactly of the same nature with those of the ancient alnagers (inspectors) and stampmasters of woollen and linen cloth. All of them are equally meant to establish, by means of a public stamp, the quantity and uniform goodness of those different commodities when brought to market.

The First Stamped Metals.

The first public stamps of this kind that were affixed to the current metals seem in many cases to have been intended to ascertain, what it was both most difficult and most important to ascertain, the goodness or fineness of the metal, and to have resembled the sterling mark which is at present affixed to plate and bars of silver, or the Spanish mark which is sometimes affixed to ingots of gold, and which being struck only upon one side of the piece, and not covering the whole surface, establishes the fineness, but not the weight of the metal. Abraham weighed to Ephron the four hundred shekels of silver which he had agreed to pay for the field of Machpelah. They were said, however, to be the current money of the merchant, and yet were received by weight and not by count, in the same manner as ingots of gold and bars of silver are at present.

The revenues of the ancient Saxon kings of England are said to have been paid, not in money but in kind, that is, in victuals and provisions of all sorts. William the Conqueror introduced the custom of paying them in money. This money, however, was, for a long time, received at the exchequer by weight and not by count.

Institution of Coins.

The inconvenience and difficulty of weighing those metals with exactness gave occasion to the institution of coins, of which the stamp, covering entirely both sides of the piece and sometimes the edges, too, was supposed to certify not only the fineness, but the weight, of the metal. Such coins, therefore, were received by count, as at present, without the trouble of weighing.

The denominations of those coins seem originally to have expressed the weight or quantity of metal contained in them. In the time of Servius Tullius, who first coined money at Rome, the Roman *as* or *pondo* contained a Roman pound of good copper. It was divided in the same manner as the English Troy (from *Troyes*, France) pound, into twelve ounces, each of which contained a real ounce of good copper.

Pounds, Shillings, and Pence.

The English pound sterling, in the time of Edward I, contained a pound, Tower weight, of silver of a known fineness. The Tower pound seems to have been something more than the Roman pound, and something less than the Troy pound. This last was not introduced into the mint of England till the 18th year of Henry VIII.

The French *livre* contained in the time of Charlemagne a pound, Troy weight, of silver of a known fineness. The fair of Troyes in Champaign was at that time frequented by all the nations of Europe, and the weights and measures of so famous a market were generally known and esteemed.

The Scots money pound contained, from the time of Alexander the First to that of Robert Bruce, a pound of silver of the same weight and fineness with the English pound sterling. English, French, and Scots pennies also contained all of them originally a real *pennyweight* of silver, the twentieth part of an ounce, and the two hundred and fortieth part of a pound.

The shilling, too, seems originally to have been the denomination of a weight. *When wheat is at twelve shillings the quarter*, says an ancient statute of Henry III, *then wastel bread of a farthing shall weigh eleven shillings and fourpence.*

The proportion, however, between the shilling and either the penny on the one hand, or the pound on the other, seems not to have been so constant and uniform as that between the penny and the pound. Among the ancient Saxons a shilling appears at one time to have contained only five pennies, and it is not improbable that it may have been as variable among them as among their neighbors, the ancient Franks.

Values Have Varied.

From the time of Charlemagne among the French, and from that of William the Conqueror among the English, the proportion between the pound, the shilling, and the penny, seems to have been uniformly the same as at present, though the value of each has been very different. For in every country of the world, says the author of "The Wealth of Nations," the avarice and injustice of princes and sovereign states, abusing the confidence of their subjects, have by degrees diminished the real quantity of metal which had been originally con-

tained in their coins. The Roman *as*, in the latter ages of the Republic, was reduced to the twenty-fourth part of its original value, and, instead of weighing a pound, came to weigh only half an ounce. The English pound and penny contain at present about a third only, and the French pound and penny about a sixty-sixth part of their original value. By means of those operations the princes and sovereign states which performed them were enabled, in appearance, to pay their debts and fulfill their engagements with a smaller quantity of silver than would otherwise have been requisite. It was indeed in appearance only; for their creditors were really defrauded of a part of what was due to them. All other debtors in the state were allowed the same privilege, and might pay with the same nominal sum of the new and debased coin whatever they had borrowed in the old. Such operations, therefore, have always proved favorable to the debtor, and ruinous to the creditor, and have sometimes produced a greater and more universal revolution in the fortunes of private persons than could have been occasioned by a very great public calamity.

The Universal Instrument of Commerce.

It is in this manner that money has become in all civilized nations the universal instrument of commerce, by the intervention of which goods of all kinds are bought and sold, or exchanged for one another.

The rules which men naturally observe in exchanging them either for money or for one another determine what may be called the relative or exchangeable value of goods.

The word *value*, it is to be observed, has two different meanings, and sometimes expresses the utility of some particular object, and sometimes the power of purchasing other goods which the possession of that object conveys. The one may be called "value in use," the other, "value in exchange." The things which have the greatest value in use have frequently little or no value in exchange; and, on the contrary, those which have the greatest value in exchange have frequently little or no value in use. Nothing is more useful than water; but, generally speaking, it will purchase scarcely anything; scarcely anything can be had in exchange for it. A diamond, on the contrary, has scarcely any value in use; but a very great quantity of other goods may frequently be had in exchange for it.

CHAPTER II.

THE FUNCTION OF BANKS.

As late in history as the year 1746, a British statesman, speaking in the House of Commons, inquired: "What is it that we call a Banker? There is in this city of London a company or corporation, called Goldsmiths, and most of those called bankers are of that corporation; but so far as I know, there is not a company or corporation in England called Bankers, nor has the business any definition or description either by common law or by statute. By custom we call a man a banker who has an open shop, with proper counters, servants, and books, for receiving other people's money, in order to keep it safe, and return it upon demand; and when any man has opened such a shop we call him a banker, without inquiring whether any man has given him any money to keep or no; for this is a trade where no apprenticeship is required, it having never yet been supposed that a man who sets up the trade of banking could be sued upon the statute of Queen Elizabeth which enacts, that none shall use any art or mystery then used, but such as have served an apprenticeship in the same."

In the present day, the functions of banks are better understood. A broad view of them, from an international standpoint, is as follows:

A banker is a dealer in capital, or more properly a dealer in money. He is an intermediate party between

the borrower and the lender. He borrows of one party, and lends to another; and the difference between the terms at which he borrows and those at which he lends, forms the source of his profit. By this means he draws into active operation those small sums of money which were previously unproductive in the hands of private individuals; and at the same time furnishes accommodation to those who have need of additional capital to carry on their commercial transactions.

Private and Public Banks.

Banks have been broadly divided into *private* and *public*. A private bank is that in which there are but few partners, and these attend personally to its management. A public bank is that in which there are numerous partners or shareholders, and they elect from their own body a certain number, who are intrusted with its management.

The *business of banking* consists chiefly in receiving deposits of money, upon which interest may or may not be allowed; in making advances of money, principally in the way of discounting bills; and in affecting the transmission of money from one place to another. Banks in metropolitan cities are usually the agents of the banks in smaller communities and charge a commission on their transactions.

The *disposable means of a bank* consist of—First, the capital paid in by the partners, or shareholders. Second, the amount of money deposited by their customers. Third, the amount of notes they are able to keep out in circulation. Fourth, the amount of money in the course of transmission—that is, money they have received, and are to repay, in some distant place, at a future time.

These disposable means are employed—First, in discounting bills. Second, in advances of money in the form of cash credits, loans, or overdrawn accounts. Third, in the purchase of government or other securities. Fourth, a part is kept in the banker's till, to meet the current demands. Of these four ways of employing the capital of a bank, three are productive, and one is unproductive. The discounting of bills yields interest; the loans, and the cash credits, and the overdrawn accounts, yield interest; the government securities yield interest; the money in the till yields no interest.

The *expenses of a bank* may be classified thus: Rent, taxes, and repairs of the building or premises in which the business is carried on; salaries of the officers; stationers' bills for books, paper, notes, stamps, etc.; incidental expenses, as postage, light, heat, etc.

The *profits of a bank* are that portion of its total receipts—including discount, interest, dividends, and commission—which exceeds the amount of the expenses.

Banks as Commercial Institutions.

In commercial language a bank is a repository, or an establishment, for the purpose of receiving the money of individuals; either to keep it in security, or to improve it by trafficking in goods, bullion, or bills of exchange; and, as stated above, it may be either of a public or of a private nature. A public bank is generally regulated by certain laws, enacted by the government of the nation or state, which constitute its charter, limit its capital, and establish the rules by which it is to conduct business. A private bank, on the other hand, is merely a contract among individuals, for carrying on a trade in money and bills;

and the responsibility of the partners is usually the only security of those who transact business with it.

Banks then are properly commercial institutions which by affording credits, or issuing notes, as the representative of money, enable merchants, with greater facility, to buy and sell commodities, at home or abroad. The produce of one country is thus exchanged with that of another, by means of a medium to which an ideal value is attached; hence the great utility of banking establishments in all commercial countries.

Classification of Banks.

Private banking is the oldest form of the banking business and, as is well known, the antiquity of banks is very great. Records exist of banking transactions among the Assyrians and in the Metropolitan Museum in New York there are Babylonian tablets bearing distinct records of transactions in banking that took place in the reign of Nebuchadnezzar.

Public or Incorporated Banks.

Public or incorporated banks may be broadly classified as national and state banks. National banks exist by virtue of national laws. State banks are governed by the acts of state legislatures.

State banks may be further divided into banks of discount and deposit, savings banks, and trust companies. It may also be noted that state banks may exist (a) by virtue of special acts or charters, or, (b) by virtue of general laws under which all such banks acquire the same rights and liabilities.

The establishment of state banks under special legislative charters was the original method employed, but

the disadvantages of the charter system are obvious. The charters were costly to the promoters, they could be granted only when the legislature was in session, and they opened the door to corruption on the one hand and to the granting of special privileges on the other.

The enactment of general laws to govern the establishment of banking institutions was made necessary by the evils attending the special charter system. Every state now has a general banking law, providing an inexpensive and ready means of obtaining authority to establish a bank under state regulations. Charters, however, are still granted by some state legislatures, and there are a number of state banks still running under old charters.

National Banks.

National banks of the United States are established under the National Banking Act and are subject to federal regulation. [See Chapter XIII.] National banks in other countries have certain relations with their respective governments, and a bank of this character has been twice established in the history of the United States. In each case, the national government founded and conducted such a bank with branches. This bank, with its two periods of existence, was known as the Bank of the United States. The idea of it was conceived immediately after the adoption of the Constitution, by Alexander Hamilton, then Secretary of the Treasury, and the act of Congress incorporating the first bank became law on February 25, 1791. The duration of the bank was limited to the 4th of March, 1811.

The second Bank of the United States, located at

Philadelphia with branches in the several states, was created by an Act of Congress March 3, 1816, and was conducted until 1836, when a renewal of its charter was denied. In consequence of this, reorganization was effected by means of authority of the legislature of the State of Pennsylvania. The bank assigned in 1841, its affairs being finally liquidated in 1856 and resulting in the payment in full of interest and principal of liabilities to depositors and note holders; the shareholders, however, received nothing on their investment in stock of the bank.

During President Tyler's administration, efforts were made to establish another national bank to be conducted by the United States government, but the president vetoed the bill and no similar bank was ever re-established.

The first bank in the United States was the Bank of North America, elsewhere referred to, by which exclusive privileges of a monopolistic character were sought, and these were soon proven to be inconsistent with the general character of an American institution. It was opened for business on January 1, 1782.

[See Chapter XVI—"The Federal Reserve System."]

Banks of Discount and Deposit.

A bank of discount is owned by the shareholders who contribute the capital. It receives commercial and other deposits, usually payable on demand. It discounts commercial paper, makes short loans for commercial purposes, and is managed by a board of directors chosen by the shareholders, who hold annual meetings to receive reports and elect directors.

Savings Banks.

Savings banks are organized by trustees and operate usually without a capital stock, having no shareholders. The deposits are received chiefly in small sums, and are payable only after notification by the depositors that they wish to withdraw part or all of their money. In the case of small withdrawals, the notification is usually waived, except in periods of financial stringency or depression. Loans of the deposit funds are made for longer periods as a rule than in the case of banks of discount, and are made to investors, for building purposes, etc. The trustees elect some of their number as directors and these directors manage the business. If a trustee resigns or dies, a successor is elected by the other trustees. The depositors have no voice in the election of officers or in the management of the business.

Trust Companies.

Trust companies are a modern development of the banking business. They combine many of the functions of the older banks of discount with the execution of trusts. Deposits are received by them and interest paid. The making of loans forms an important part of the business. The funds are lent in all cases on collateral security, stocks, bonds, etc., and not, as in the case of commercial banks, on the credit of business men and firms.

Trust companies act as administrators and executors of estates, guardians to minors, trustees for beneficiaries of wills, etc. They are often called upon also to act as trustees of bondholders in large operations, such as the building or reorganizing of railroads.

One of their principal functions is the management of real estate, especially where the ownership is vested in estates of deceased individuals or in corporations. They act as fiduciary agents in business operations of a greatly varied character, and in recent years have largely replaced individual trustees in the management of estates, etc., for the very good reasons that they possess capital, responsibility, experience, disinterestedness and conservatism, and besides have fixed charges of a reasonable character for the services they render. They have proved a valuable addition to the modern machinery of business.

CHAPTER III.

THE ORIGIN OF BANKING.

There is but little information available as to the kind of banks that existed in the earlier ages, or on what system they conducted their business. As most of the nations of antiquity subsisted chiefly on agriculture, they probably had little occasion for banks; for it is only in commercial countries that these institutions have attained to any high degree of prosperity. And as even the commercial nations of antiquity were unacquainted with joint-stock companies or commercial corporations, and had not discovered the use of paper-money or bills of exchange, the business of a banker, even among them, must have been somewhat different from that of a banker of the present day.

The merchants of those early times employed as money, gold and silver bullion; and received it and paid it away by weight. It is probable that the merchants would require that the precious metals they received should be of a certain degree of fineness. Thus when we read of a father in Israel weighing out as a payment 400 shekels of silver, *current money with the merchant* (Genesis XXIII, 16)—the phrase implies that the money current with the merchant was different from that in ordinary use.

After bullion was superseded by coin, and each nation had a coin of its own, the merchants would necessarily in

the course of their business receive coins belonging to different nations, and hence would be applied to by strangers who wished to exchange their own money for the money of the country in which they sojourned. This would take place more particularly in those oriental countries whose inhabitants were accustomed in certain seasons to meet together for the celebration of public festivals.

The Jewish Money-Changeers.

We read in the New Testament of money-changers who had tables in the temple of Jerusalem. It is probable they attended for the purpose of giving Jewish money in exchange for those various coins which persons coming from the neighboring countries might have brought with them.

Whether the business of money-changing was carried on as a separate employment, or united with the general business of a merchant, we are not informed; but it is stated that the exchangers allowed interest for money lodged in their hands. "Thou wicked and slothful servant, thou oughtest to have put my money to the exchangers, and then at my coming I should have received mine own with usury." (Matthew XXV, 27.) From the circumstance of their allowing interest on money, we may infer that they also lent money on interest; otherwise they would have had no use for the money they borrowed. This scanty information forms the whole of our knowledge respecting the mode of banking practised by the ancient Babylonian, Egyptian and Jewish nations.

The Banks of Ancient Greece.

With respect to the bankers of Greece we have more ample details, some of these being interestingly recounted by J. W. Gilbart, F. R. S., in his "History, Principles and Practice of Banking."

In Greece the first banks were the temples. We read that "the wealth and growing estimation of Delphi had also another source, of which information remains only so far as to assure us of the fact with far less explanation of circumstances than for its importance might be desired. In the general insecurity of property in the early ages, and especially in Greece, it was highly desirable to convert all that could be spared from immediate use into that which might more easily be removed from approaching danger. With this view, by a compact understood among men, the precious metals appear to have obtained their early estimation. Gold, then, and silver, having acquired their certain value as signs of wealth, a deposit secure against the dangers continually threatening, not individuals only, but every town and state in Greece, would be a great object of the wealthy. Such security offered nowhere in equal amount as in those temples, which belong not to any single state, but were respected by the common religion of the nation. The priesthood, not likely to refuse the charge, would have a large interest in acquiring the reputation of fidelity to it. Thus Delphi appears to have become the great bank of Greece, perhaps before Homer, in whose time its riches seem to have been already proverbial. Such then was found the value of this institution, that when the Dorian conquerors drove so large a part of the Greek nation into exile, the

fugitives who acquired new settlements in Asia established there their own national bank in the manner of that of their former country, recommending it to the protection of the same divinity. The Temple of Apollo, at Branchidæ, became the great depository of the wealth of Ionia." (Mitford's History of Greece.)

Afterward the temple of Olympia, like that of Delphi, became an advantageous repository for treasure. But although the temples discharged one of the offices of banks, by being places of security, yet as they did not grant interest on the money deposited, they did not supersede banks of deposit established by private individuals. At Athens, especially, banking was a flourishing trade, which is thus described by the Abbe Barthelemy in "Travels of Anacharsis in Greece":

Methods of Athenian Bankers.

"The greater part of the Athenians employ their money in trade, but they are not permitted to lend it for any place but Athens. They receive an interest for the use of it which is not fixed by the laws, but stipulated in a contract, deposited either in the hands of a banker or some friend to both parties. If, for instance, a voyage is to be made to the Cymmerian Bosphorus, the instrument specifies the time of the departure of the vessel, the kind of commodities with which she is to be freighted, the sale which is to be made of them in the Bosphorus, and the merchandise which she is to bring back to Athens; and as the duration of the voyage is uncertain, some agree that their money shall not be payable till the return of the vessel, while others, more timid, and contented with a

less profit, require that it shall be repaid at the Bosphorus immediately after the sale of the goods carried out; in which case they either themselves repair to the place where they are to receive it, or send thither some person in whom they can confide, and whom they empower to act for them.

“The lender has his security, either on the merchandise or the goods of the borrower; but as the dangers of the sea are in part risked by the former, and the profit of the latter may be very considerable, the interest of money thus lent may rise as high as thirty per cent, more or less, according to the length and hazards of the voyage.

“The usury here spoken of is known by the name of *maritime*; that called *landed* usury is more oppressive, and no less variable.

“Those who, without risking the dangers of the sea, wish to derive profit from their money, lend it to bankers at the rate of twelve per cent per annum, or rather one per cent for every new moon. But as the laws of Solon do not prohibit those who have money from demanding the most extravagant interest for it, some persons receive more than sixteen per cent, and others, especially among the lower classes of people, exact every day the quarter of the principal. These extortions are not concealed, and cannot be punished, except by the public opinion, which condemns, but does not sufficiently despise those who are guilty of them.

Commerce Gave Rise to Bankers.

“Commerce increases the circulation of wealth, and this circulation has given birth to the occupation of bankers, which facilitates it still more. A person who is about to

make a voyage, or who fears to keep by him too great a sum of money, lodges it in the hands of these bankers, sometimes only as a trust, and without requiring any interest, and sometimes on condition of sharing with them the profit it shall produce. They advance money to generals who go to take on them the command of armies, or other individuals who stand in need of their assistance.

“In the greater part of bargains made by them, no witness is required; they content themselves with entering in a register that such a person has deposited in their hands such a sum, which they must repay to such another, if the former should happen to die. It would sometimes be very difficult to prove that they have received a sum of money, were they to deny it; but if they should expose themselves to such a charge more than once, they would lose the confidence of the public, on which depends their success in the business in which they are engaged.

“By employing the money deposited in their hands, and lending it at a greater interest than they are to pay for it, they amass riches which gain them friends, whose protection they purchase by assiduous services. But all is lost when, unable to call in their money, they are incapable of fulfilling their engagements. They are then obliged to conceal themselves, and can only escape the severity of justice by surrendering all their remaining property to their creditors.

“Those who wish to exchange foreign moneys apply to the bankers, who by different means, as the touchstone and the balance, examine whether they are not adulterated or deficient in weight.”

The First Joint-Stock Bank.

In a treatise published by Xenophon, upon the Athenian revenue, we meet with the first suggestion for the establishment of a joint-stock bank. Of this historic step Mitford says:

“A very remarkable project, which seems to have been original with Xenophon, next occurs—the establishment of a bank by subscription, open to all the Athenian people. The interest of money, it appears, was enormous at Athens, an unavoidable consequence of the wretched insecurity of person and property. Throughout modern Europe, land is, of all property, esteemed the safest source of income; but in Greece it was held that the surest return was from money lent at interest. For in the multiplied division of Greece into small republics with very narrow territories, the produce of land was continually liable to be carried off or destroyed by an invading enemy, but a moneyed fortune, according to Xenophon’s observation, was safe within the city walls. In proportion, then, to the interest of money, and the insecurity of all things, the profits of trade will always be high, and thus numbers would be induced to borrow, even at a high interest. Xenophon therefore proposed, by lending from the public stock, and encouraging commercial adventure by just regulations, to raise a great revenue, and, by the same means, instead of oppressing to enrich individuals. As corollary, then, to his project, when the amount of the subscription or its profits might allow, he proposed to improve the ports of Athens, to form wharves and docks, to erect halls, exchanges, warehouses, market-houses, and inns, for all which tolls and rents

should be paid; and to build ships to be let to merchants. Thus, while numbers of individuals were encouraged and enabled to employ themselves for their private benefits, the whole Athenian people would become one great banking company, from whose profits every member, it was expected, would derive at least an easy livelihood."

The Banks of Ancient Rome.

At Rome, the bankers were called *Argentarii*, *Mensarii*, *Numularii*, or *Collybistæ*. The banking-houses or banks were called *Tabernæ Argentariæ*, or *Mensæ Numulariæ*. Some of these bankers were appointed by the government to receive the taxes, others carried on business on their own account. Their mode of transacting business was somewhat similar to that which is in use in modern times.

Into these houses the State, or men of wealth, caused their revenues to be paid, and they settled their accounts with their creditors by giving a draft or check on the bank. If the creditor also had an account at the same bank, the account was settled by an order to make the transfer of so much money from one name to another. To assign over money or to pay money by a draft, was called *præscribere*, and *rescribere*; the assignment or draft was called *attributio*.

These bankers, too, were money-changers. They also lent money on interest, and allowed a lower rate of interest on money deposited in their hands.

In a country where commerce was looked upon with contempt, banking could not be deemed very respectable. Among most of the ancient agricultural nations there was a prejudice against the taking of interest for the

loan of money. Hence the private bankers at Rome were sometimes held in disrepute, though those whom the government had established as public cashiers, or receivers-general, as we may term them, held so exalted a rank that some of them became consuls.

The Romans had also loan banks, from which the poor citizens received loans without paying interest. We are told that the confiscated property of criminals was converted into a fund by Augustus Cæsar, and that from this fund sums of money were lent without interest to those citizens who could pledge value to double the amount. The same system was pursued by Tiberius. He advanced a large capital, which was lent for a term of two or three years to those who could give landed security to double the value of the loan. Alexander Severus reduced the market-rate of interest by lending sums of money at a low rate, and by advancing money to poor citizens to purchase lands, and agreeing to receive payment from the produce.

Origin of the Word "Bank."

After commerce and the arts had revived in Italy, the business of banking was resumed. The word "bank" is commonly regarded as derived from the Italian word *banco*, a bench—the Jews in Lombardy having benches in the market-place for the exchange of money and bills. When a banker failed, his bench was broken by the populace; and from this circumstance we have our word *bankrupt*.

But while this is the derivation generally accepted, some writers have asserted that a more accurate explanation of the use of the word "bank" is that which makes it

synonymous with the Italian *monte* (Latin *mons, montis*), a mound, heap, or bank. Thus the Italian *Monte di Pietà* and the French *Mont de Pieté* signify "a Charity Bank." Bacon and Evelyn use the word in the same sense. Bacon says: "Let it be no *bank* or common stock, but every man be master of his own money." Evelyn, referring to the *Monte di Pietà* at Padua, writes: "There is a continual *bank* of money to assist the poor." Blackstone also says: "At Florence, in 1344, government owed £60,000, and being unable to pay it, formed the principal into an aggregate sum called, metaphorically a *Mount* or *Bank*."

The Florentine Bankers.

Though the States of Venice and Genoa made the most rapid advances in commerce, and established public banks, yet the department of banking appears to have fallen more particularly into the hands of the Florentines.

"As the Florentines did not (like the Venetians and the Genoese) possess any commodious seaport, their active exertions were directed chiefly towards the improvement of their manufactures and domestic industry. About the beginning of the fourteenth century, the Florentine manufacturers of various kinds, particularly those of silk and woollen cloth, appear, from the enumeration of a well-informed historian, to have been very considerable. The connections which they formed in different parts of Europe, by furnishing them with the productions of their own industry, led them to engage in another branch of trade, that of banking. In this they soon became so eminent, that the money transactions of

almost every kingdom in Europe passed through their hands, and in many of them they were entrusted with the collection and administration of the public revenues. In consequence of the activity and success with which they conducted their manufactures and money transactions—the former always attended with certain though moderate profit, the latter lucrative in a high degree, at a period when neither the interest of money nor the premium on bills of exchange was settled with accuracy—Florence became one of the first cities in Christendom, and some of its citizens extremely opulent.” (Robertson’s “Disquisition on India.”)

Cosmo di Medici of Florence was reckoned in his day the most wealthy merchant ever known in Europe, and in a treaty whereby Louis XI engaged to pay Edward IV fifty thousand crowns annually, it was expressly stipulated that the king of France should engage the partners of the Bank of Medici to become bound for the faithful and regular performance of this agreement on the part of himself and his heirs.

The Earliest National Banks.

Although the business of banking has probably always been carried on by private individuals before it has been carried on by a public company, yet most countries have found it useful to establish a public or national bank. Some of these banks have been founded for the purpose of facilitating commerce, others to serve the government. The most ancient of these was founded at Venice.

The Bank of Venice.

The first establishment of banking, in a regular and systematic form, took place at Venice about the middle of

the twelfth century (1157); and it arose from the necessities of the state. Duke Vitale, Mitchel II, being involved in expensive wars with the Empire of the West, and the Grecian Manuel, embarrassed the finances of the republic; and to relieve it from the pressure of its difficulties, he had recourse to a *forced loan*, the contributors to which were made creditors, and received interest at the rate of four per cent per annum. The "Chamber of Loans" was established for the management of this fund, and regular payment of the interest; which, gradually improving its plan, at last formed itself into the more perfect institution of the Bank of Venice.

This celebrated bank served as a model to almost every similar establishment in succeeding ages; its capital was 5,000,000 ducats, or \$4,800,000, for which the republic was security. It was, properly, a board of deposit, credit and interest. By an edict of the state, all payments of wholesale merchandise, and bills of exchange, were required to be made *in banco*, or bank notes; and all debtors were obliged to lodge their money in the bank, that their creditors might receive payment *in banco*; which was done by transferring the amount from the one to that of the other, or by writing off the sum from the account of the debtor, and placing it to that of the creditor. Payments were made in this manner without the intervention of gold or silver; but there were exceptions to this rule in cases of retail trade, or when foreigners wished to carry off the precious metals.

All the riches of the state thus flowed into the bank; and, through various channels, were again diffused among traders, to give activity to the extensive commerce of this once opulent and powerful city.

From its good faith, and the regularity of its transactions, the Bank of Venice always maintained a high character in Europe, and on some occasions, its obligations were more esteemed than the bonds of kings. This bank may well be deemed a wonder for the twelfth century, but required much alteration in methods to adapt it to the requirements of the nineteenth and twentieth centuries.

During two centuries and a half the Bank of Venice was unrivaled. The progress of human knowledge was slow and improvements in banking methods were long in coming.

The Bank of Barcelona.

So early as the year 1349 the business of banking was carried on after a fashion by the drapers of Barcelona, who were probably the most wealthy class of merchants in that city. But by an ordinance of the king of Arragon, they were not allowed to commence this branch of trade until they had first given sufficient security. In the year 1401 a public bank was established by the magistrates. It was called the Table of Exchange, and was properly a bank of exchange and deposit. Foreign bills were negotiated with the same liberality as those of the citizens, and accommodations were extended to strangers as well as to natives. It was altogether calculated for the encouragement of both external and internal commerce, and the funds of the city were pledged as security for the responsibility of the bank.

The Bank of Genoa.

In the year 1407, the bank of Genoa commenced, owing its origin to the debts of the state. Previous to this

time, the republic borrowed large sums of money from the citizens, assigning certain branches of the revenue for the payment of the interest, and accounting to government for the funds intrusted to its care. From this circumstance, the Genoese claim the merit of establishing a bank as early as the Venetians; but it is evident that the transactions of this board were only an approximation to banking. In process of time, however, the multiplicity and extent of these funds induced disorder and confusion, and it was deemed expedient to consolidate the whole into one capital stock, to be managed by a bank called the Chamber of St. George, to be governed by eight protectors, annually chosen, elected by the creditors and stockholders. Under this form of government, the affairs of the bank were prosperously conducted; but the further increase of the public debts, and the acquirement of towns and territories as security, among which were the port of Caffa and the little kingdom of Corsica, made the business of the bank much more complex; and the inconvenience of annual successions of new protectors becoming apparent, determined the Genoese, in the year 1444, to elect eight new governors for the management of the bank, of which only two were to go out every year.

The First Bills of Exchange.

Before the discovery of the passage to the Indias, by the Cape of Good Hope, the Venetians enjoyed a monopoly of the lucrative trade of the east, by means of the Mamelukes of Egypt, with whom they were leagued by policy and interest, which diffused opulence and wealth throughout Italy. This extensive commerce created

and gave circulation to bills of exchange, the credit and currency of which were universally acknowledged when they bore the signature of the banks of Italy, and for several centuries there were no other establishments of the kind in Europe.

The Bank of Amsterdam.

The Bank of Amsterdam was established on the 31st of January, 1609. The magistrates of the city, under authority of the States, declared themselves the perpetual cashiers of the inhabitants, and that all payments above 600 gilders (afterwards reduced to 300) and bills of exchange, should be made in the bank; which obliged merchants to open accounts with it for the payment of their foreign bills. The extensive commerce of Amsterdam involved such a variety of transactions that the expediency of regulating them became evident, and no measure could more effectually secure property, check lawsuits, and prevent frauds, than the establishment of a bank office, in which all receipts and payments were registered in books kept open for the purpose.

Dr. Smith ascribes the origin of this bank to the debased state of the current coin which the trade of Amsterdam brought from all quarters of Europe, and which was sold at a reduction of nine per cent. below the money of the mint. Merchants, in such cases, could not always find standard money to pay bills of exchange, the value of which was always uncertain; and accordingly operated against the United Provinces with foreign nations. But as the bank received the debased, light, or worn coin, at its intrinsic value, in the good money of the country,

and gave credit for the amount in its books, an invariable standard was thus established, that tended greatly to simplify and facilitate the operations of commerce.

Bank Money at a Premium.

The beneficial effects of this establishment in Holland were soon perceived, and bank money immediately bore a premium called the *agio*, which is a term to denote the difference of price between the money of the bank and the coin of the country.

When we consider that coin is only a representative of commodities, and that its utility arises only from its being a generally acknowledged standard of value, by which mankind in the civilized state of society are enabled to calculate the price of articles of exchange, it was not surprising that bank receipts, which represent property also, and at the same time are not liable to risk, danger, or deterioration of any kind, should be held in higher estimation than coin, which is exposed to robbery, and all sorts of casualties.

In all countries where banks have been regular in their transactions and their responsibility undoubted, their paper has carried a premium, more or less, according to circumstances, and the *agio* of Amsterdam was generally about five per cent.

The Bank Capital.

The amount of capital of the Bank of Amsterdam was never exactly ascertained. It was originally constituted by deposits of coin, and there was full value in its coffers for all the credits and receipts it issued. The bank, however, gave credit and receipts also upon deposits of gold and silver bullion, at the rate of five per cent less than the

mint price of such bullion, which was restored to the owner if he called for it within six months, upon paying one-fourth per cent if the deposit was in silver, or one-half per cent if in gold. But if the term of six months was allowed to expire, the bank retained the bullion at the price stated in its books.

The advantage of making deposits in this bank was two-fold: First, the credit enabled the merchant to pay his bills of exchange; second, the receipt gave him an opportunity of selling his bullion at an advance price, if the market should fluctuate in his favor. "Although none could draw out bullion without producing a receipt, and reassigning bank money equal to the price at which the bullion had been received, yet it was not absolutely necessary that both credit and receipt should always remain in the hands of the same person; as he who had the receipt could find bank money to buy at the market price, to enable him to relieve the bullion, and the owner of the credit could at all times find receipts in abundance; but to prevent any extraordinary rise in the price of bank money, or receipts, which speculation or other causes might sometimes induce, the bank adopted the resolution of selling bank money for the current coin, at an *agio* of five per cent, and buying it at the rate of four.

"The city of Amsterdam was guaranty that there should always be full value in the bank to answer all its demands; and as the directors, who were annually changed, compared the treasure with the books, under solemn oath,* * * there could be no probability of fraud."

Managed by the Burgomasters.

The four reigning burgomasters were invested with the direction of the bank, and the city of Amsterdam derived a considerable revenue from it, which arose from the following sources: "For all deposits, a fourth or half per cent had to be paid; from every person who opened an account, a fee of ten guilders was exacted, and for every additional account, three guilders three stivers; for every transfer, two stivers, or six stivers if the transfer was less than three hundred guilders. If any person overdrew his account, he was fined three per cent on the amount, and his order was set aside. There was also a considerable profit on the sale of foreign coin, or bullion, which was always kept till it could be sold to advantage; and likewise by selling bank money, at five per cent *agio*, and buying it at four.

Through these various resources, the Bank of Amsterdam became rich and prosperous, and it was supposed to retain in its repositories more gold and silver than any other establishment of the kind in Europe.

A Model for European Banks.

The Bank of Amsterdam was the model on which were formed many of the older European banks, but they have varied very considerably from each other, according to the circumstances of the respective countries in which they have been established.

The Bank of North America.

The Bank of North America owed its origin to the vigorous mind and enterprising genius of Robert Morris, who conceived the idea of it when superintendent of

the public finances, and submitted to Congress in the month of May, in the year 1781, the plan for establishing a national bank of North America.

Agreeably to this plan, the capital was to consist of 1,000 shares, of \$400 each, or \$400,000, payable in gold and silver, to be increased by new subscriptions, from time to time, at the pleasure of the directors. The directors, twelve in number, were to be chosen by the stockholders, and were to be intrusted with the management of the institution. The notes of the bank payable on demand were to be made a legal tender in the discharge of duties, taxes, etc.

On the 26th of May, in the same year, Congress approved of the plan, and passed several resolutions, by which it pledged itself to support the proposed institution; to incorporate the subscribers, under the name of the president, directors, and company of the Bank of North America; to recommend to the several states the prevention of similar establishments within their respective jurisdictions, during the war; to receive the notes of the institution in payment of taxes, duties, and debts due to the United States, and to use its influence with the several legislatures, to have laws passed, which should make it a felony to counterfeit the notes of the bank, etc.

After this, subscriptions were immediately opened, during the summer and autumn of the same year. In November, directors were chosen. In December, Congress, conformably to its former resolutions, passed an ordinance which created the subscribers to the bank a corporation *for ever*, under the title of "The President, Directors, and Company of the Bank of North America." The original features of the plan were preserved,

but the bank was restricted from holding property exceeding the amount of \$10,000,000.

The institution commenced its operations in the month of January following, and Robert Morris, who may be justly styled the father of the system of credit and paper circulation in the United States, succeeded in securing for it the good-will and confidence of the people at large, by various judicious measures, of which a circular letter, addressed to the governors of the several states, explaining the object of the institution, and the certain advantages to be derived from it, was not the least effectual.

"Thus the first bank in the United States came into existence, and such was its happy and immediate influence on the public finances, and on commercial concerns in general," says Goddard in his History of Banking Institutions, "that it may be justly doubted whether, without its seasonable aid, the revolutionary struggle for independence could have been brought to a satisfactory termination.

"The United States, for several years, was constantly indebted to the bank, to a larger sum than the stock they owned; nor could the various devices for creating a revenue have answered their end, or the army have been fed and clothed, or any degree of order and punctuality maintained in the dispatch of public affairs but for the great facility in the management of business, and the restoration of confidence, which were created by this institution. The sense of the great utility of the bank, was so universal, that Massachusetts and Pennsylvania corroborated the ordinances of Congress, by additional charters, and Rhode Island, Connecticut, and Delaware

passed laws for the purpose of preventing the counterfeiting of its notes.

“Yet when peace had been concluded, and the pressure of the times was over, there were not wanting those who viewed the prosperous state of the affairs of the bank with a jealous eye, and conjured up imaginary fears of an overbearing oppression, an alarming foreign influence, and fictitious credit, from temporary punctuality; of a created scarcity of specie; possible commercial convulsions, from the stopping of discounts; partial favors, and comparative disadvantages, under which distant traders labored; as if, in a moral community, the bare possibility of abuse could ever furnish a good argument against the decided utility of a thing; or as if a benefit were to be relinquished, because all cannot be benefited alike. And so effectually were those objections against the institution urged, that on the 13th of September, 1785, the legislature of Pennsylvania actually repealed their charter.”

The repeal was persevered in by the succeeding legislature, notwithstanding innumerable petitions to the contrary, and vast efforts to enlighten their proceedings.

The bank, however, continued its usual operations under the charter from Congress, and in the enjoyment of corporate rights, which, it was presumed, could not be arbitrarily wrested from them after having been once legally bestowed.

The legislature which met in December, 1786, at last thought proper to renew the charter of the bank, and passed an act to that effect, on the 7th of March, 1787, by which, however, the term of the charter was limited to

fourteen years, and the capacity of the corporate body of holding property was restricted to two millions of dollars. The same charter was extended for the term of fourteen years more, by an act passed on the 20th of March, 1799.

CHAPTER IV.

EARLY BANKING IN ENGLAND.

There are four principal branches or functions of the business of modern banking, namely, (1) the exchanging of money; (2) the lending of money; (3) the borrowing of money; (4) the transmitting of money. It is in this order that the various functions seem to have originated in most countries. We trace below the rise of banking in England, as a leading and typical commercial nation.

1.—Money-Changing.

For several centuries the only coin current in England was made of silver, and the highest denomination was the silver penny. This coin contained about half as much silver as one of the modern sixpences. There were also silver half-pence and silver farthings, and frequently the silver pennies were cut into halves and quarters to serve the purpose of half-pence and farthings, until laws were made to prohibit the practice. Copper was not coined in England until the year 1609, and then the small leaden token previously issued by private individuals was suppressed.

Gold was first coined in England in 1257, but soon went out of circulation, and did not enter permanently into currency until 1344 when Edward III issued gold nobles, half nobles, and farthing nobles; the noble to pass for 6s. 8d., the half noble for 3s. 4d., and the farthing noble for 1s. 8d.

The Office of Royal Exchanger.

This coinage seems to have given rise to the office of Royal Exchanger. We find the following in Henry's History of England: "It was not so easy a matter in the times we are now considering to exchange gold and silver coins for each other as it is at present, and therefore Edward III and several of his successors took this office into their own hands, to prevent private extortion as well as for their own advantage, and they performed it by appointing certain persons, furnished with a competent quantity of gold and silver coins, in London and other towns, to be the only exchangers of money, at the following rate:—When these royal exchangers gave silver coins for a parcel of gold nobles, for example, they gave one silver penny less for each noble than its current value, and when they gave gold nobles, for example, they gave one silver penny less for each noble than its current value, and when they gave gold nobles for silver coins they took one penny more, or 6s. 9d. for each noble, by which, in every transaction, they made a profit of 1 1-5 per cent. These royal exchangers had also the exclusive privilege of giving the current coins of the kingdom in exchange for foreign coins, to accommodate merchant-strangers, and of purchasing light money for the use of the mint. As several laws were made against exporting English coin, the king's exchangers at the several sea-ports furnished merchants and others who were going beyond seas with the coins of the countries to which they were going, in exchange for English money, according to a table which hung up in their office for public inspection. By these various operations they made con-

siderable profits, of which the king had a certain share. The house in which the royal exchanger of any town kept his office was called the *Exchange*, from which it is probable the public structures where merchants meet for transacting business derive their name."

Re-established by Charles I.

This institution continued until the middle of the reign of Henry VIII, when it fell into disuse. It was re-established in 1627, by Charles I, who then issued the following proclamation: —

"Whereas the exchange of all manner of gold and silver current in moneys or otherwise, as the buying, selling and exchanging of all manner of bullion, in species of foreign coins, billets, ingots, etc., fine, refined, or alloyed howsoever, being fit for our mint, hath ever been and ought to be our sole right, as part of our prerogative, royal and ancient revenue, wherein none of our subjects of whatever trade or quality soever, ought at all, without any special license, to intermeddle, the same being prohibited by divers Acts of Parliament and Proclamations, both ancient and modern. And whereas ourself and divers of our royal predecessors have, for some time past, tolerated a promiscuous kind of liberty to all, but especially to some of the mystery and trade of goldsmiths in London and elsewhere, not only to make the said exchanges, but to buy and sell all manner of bullion, and from thence some of them have grown to that licentiousness, that they have for divers years presumed, for their private gain, to sort and weigh all sorts of money current within our realm, to the end to cull out the old and new moneys, which, either by not wearing or by any other

accident, are weightier than the rest, which weightiest moneys have not only been molten down for the making of plate, etc., but even traded in and sold to merchant-strangers, etc., who have exported the same, whereby the consumption of coins has been greatly occasioned, as also the raising of the silver even of our own moneys to a rate above what they are truly current for, by reason whereof no silver can be brought up to our mint but to the loss of the bringers, etc. For the reforming of all which abuses we have, by the advice of our Privy Council, determined to assume our said right, for our own profit and the good of the realm, and for this end we do now appoint Henry, Earl of Holland, and his deputies, to have the office of our changes, exchangers, and out-changes whatsoever, in England, Wales, and Ireland. And we do hereby strictly charge and command that no goldsmith nor other person whatsoever, other than the said Earl of Holland, do presume to change, etc.”

The King's Prerogative.

As this measure occasioned some dissatisfaction, the king authorized, in the following year, the publication of a pamphlet, entitled “Cambium Regis, or the Office of his Majesty's Exchanger Royal.” In this pamphlet it was attempted to be shown:—

“That the prerogative of exchange of bullion for coin has always been a flower of the Crown, of which instances are quoted from the time of King Henry I downward. That King John farmed out that office for no smaller a sum than five thousand marks—that the place or office where the exchange was made in his reign was near St. Paul's Cathedral in London, and gave name to the street

still called the Old 'Change—that in succeeding reigns there were several other places for those exchangers besides London—that this method continued to Henry the Eighth's times, who suffered his coin to be so far debased that no regular exchange could be made—that the same confusion made way for the London goldsmiths to leave off their proper trade of *goldsmithrie*, i. e., the working and selling of new gold and silver plate, and manufacture, the sole intents of all their charters, and to turn exchangers of plate and foreign coins for our English coins, although they had no right to buy any gold or silver for any other purpose than for their manufacture aforesaid, neither had any other person but those substituted by the Crown a right to buy the same. The king, therefore, has now resumed this office, not merely to keep up his right so to do, but likewise to prevent those trafficking goldsmiths from culling and sorting all the heavy coin, and selling the same to the mint of Holland, which gained greatly thereby, or else by melting those heavy coins down for making of plate, witness the pieces of thirteenpence-halfpenny, old shillings of Queen Elizabeth, ninepenny and fourpenny-halfpenny pieces, which, being weighty moneys, none of them were now to be met with, whereby they have raised the price of silver to two-pence per ounce above the value of the mint, which thereby has stood still ever since the eleventh of King James—that for above thirty years past it has been the usual practice of those exchanging goldsmiths to make their servants run every morning from shop to shop to buy up all weighty coins for the mints of Holland and the East countries, whereby the king's mint has stood still."

Not only the Goldsmiths' Company of London, but the lord mayor, court of aldermen, and common council, petitioned against the revival of the office of the Royal Exchanger, says J. W. Gilbart in his History of Banking. They were not, however, successful; and on a second application of the Goldsmiths' Company, the king told them "to trouble him no farther, since his right to the office was undoubtedly clear." After the death of Charles I, however, this office was not continued, and the business of money-changing fell again into the hands of the goldsmiths. Their shops were situated chiefly on the south row of Cheapside, and extended from the street called the Old 'Change unto Bucklersbury.

2.—Money-Lending.

That part of the business of banking which consists in the lending of money was conducted during the Middle Ages under severe restraints. The taking of interest for the loan of money was deemed sinful, and stigmatized with the name of *usury*. This opinion appears to be wholly unwarranted, either by the principles of natural equity or the enactments of the Mosaic law.

Michaelis says in his Commentaries on the Laws of Moses: "The taking of interest from Israelites was forbidden by Moses; not, however, as if he absolutely and in all cases condemned the practice, for he expressly permitted interest to be taken from strangers, but out of favor to the poorer classes of the people. The farther we go back towards the origin of nations, the poorer do we commonly find them, and the more strangers to commerce; and where this is the case, people borrow, not

with a view to profit, but from poverty, and in order to procure the necessaries of life; and there it must be, no doubt, a great hardship to give back more than has been gotten. The taking of interest from *strangers*, Moses has not only nowhere forbidden, but even expressly authorized. Hence it is clear that he does by no means represent interest as in itself sinful and unjust. Any such prohibition of interest in our age and country would, without doubt, be unjust towards lenders, and destructive to trade of every description. Among all the remnants of ancient laws, it would be difficult to find one which, in the present state of society, it would be more foolish and hurtful to revive and enforce. It would only suit a state so constituted as was that of the Israelites by Moses."

Early Rates of Interest.

The taking of interest for the loan of money was first prohibited in England by Edward the Confessor. This law, however, appears to have become obsolete; for, in a council held at Westminster, in the year 1126, usury was prohibited only to the clergy, who, in case they practised it, were to be degraded; and in another Council, held twelve years afterwards, it was decreed that, "such of the clergy as were usurers and hunters after sordid gain, and for the public employments of the laity, ought to be degraded."

The earliest mention in English history of a certain yearly allowance for the usury or interest of money, is in the year 1199, the tenth and last year of Richard I. In this case the rate of interest was 10 per cent. This appears to have been the ordinary or market-rate of interest from that period until the time of Henry VIII,

but there are many instances on record of a much higher rate of interest being taken, especially by the Jews and the Lombards, who, in those times, were the principal money-lenders. The exorbitant interest taken by them is supposed by eminent writers to have been the effect of the prohibition of usury.

The Jews, who were previously famous in foreign countries for their "egregious cunning in trade and in the practice of brokerage," arrived in England about the time of the Norman Conquest (1066) and soon became remarkable for wealth and usury. "The prejudices of the age," says Hume, "had made the lending of money on interest pass by the invidious name of usury; yet the necessity of the practice had still continued it, and the greater part of that kind of dealing fell everywhere into the hands of the Jews. The industry and frugality of this people had put them in possession of all the ready money, which the idleness and profusion common to the English with the European nations enabled them to lend at exorbitant and unequal interest."

Henry III prohibited the Jews taking more than twopence a week for every 20 shillings they lent to the scholars at Oxford. This is after the rate of £43 6s. 8d. per cent. per annum. Peter of Blois, Archdeacon of Bath, writes thus to his friend the Bishop of Ely: "I am dragged to Canterbury to be crucified by the perfidious Jews amongst their other debtors, whom they ruin and torment with usury. The same sufferings await me also at London, if you do not mercifully interpose for my deliverance. I beseech you, therefore, O most Rev. Father and most loving friend, to become bound to Sam-

son the Jew for £6 which I owe him, and thereby deliver me from that cross."

Expulsion of the Jews.

The wealth and the rapacity of the Jews occasioned the most cruel proceedings against them on the part of both the populace and the Government. These persecutions terminated by their expulsion from England in the year 1290. They were not readmitted until the time of Oliver Cromwell.

On this occasion the Protector summoned an assembly to debate two questions: 1st, whether it were lawful to tolerate the Jews; 2nd, if it were, on what conditions? The assembly consisted of two judges, seven citizens of London, among whom were the lord mayor and the sheriffs, and fourteen divines. The judges considered toleration merely as a point of *law*, and declared they knew of no law against it, and that if it were thought useful to the State, they would advise it. The citizens viewed it in a *commercial* light, and they were divided in their opinion about its utility. Both these, however, despatched the matter briefly; but the divines violently opposed it by text after text for four whole days. Cromwell was at length so weary that he told them he had hoped they would have thrown some light on the subject to direct his conscience, but, on the contrary, they had rendered it more obscure and doubtful than before; that he desired, therefore, no more of their reasonings, but lest he should do anything rashly, he begged a share in their prayers.

The Lombards as Usurers.

Previous to the expulsion of the Jews, the Lombards had settled in England, and they soon became as great

usurers as the Jews themselves. By *Lombards* were generally understood Italian merchants from the four republics of Genoa, Lucca, Florence, and Venice.

The foreign commerce of those times was usually carried on by companies of merchants who, on payment of certain duties, were invested by the Government with a monopoly of the trade to those countries of which they were natives, and they also possessed peculiar privileges.

“As the Lombards engrossed the trade of every kingdom in which they settled, they soon became masters of its cash. Money, of course, was in their hands not only a sign of the value of their commodities, but became an object of commerce itself. They dealt largely as bankers. In an ordinance, A. D. 1295, we find them styled *mercatores* and *campsores*. They carried on this, as well as other branches of their commerce, with somewhat of that rapacious spirit which is natural to monopolizers who are not restrained by the competition of rivals. An opinion which prevailed in the Middle Ages was, however, in some measure the cause of their exorbitant demands, and may be pleaded in apology for them.

“Commerce cannot be carried on with advantage, unless the persons who lend a sum are allowed a certain premium for the use of their money, as a compensation for the risk which they run in permitting another to traffic with their stock. This premium is fixed by law in all commercial countries, and is called the legal interest of money. But the Fathers of the Church absurdly applied the prohibitions of usury in Scripture to the payment of legal interest, and condemned it as a sin. The schoolmen misled by Aristotle, whose sentiments they followed, im-

plicitly and without examination adopted the same error and enforced it. Thus the Lombards found themselves engaged in a traffic which was deemed criminal and odious. They were liable to punishment if detected. They were not satisfied, therefore, with that moderate premium which they might have claimed, if their trade had been open and authorized by law. They exacted a sum proportional to the danger and infamy of a discovery. Accordingly we find it was usual for them to demand twenty per cent. for the use of money in the thirteenth century.

“About the beginning of that century the Countess of Flanders was obliged to borrow money in order to pay her husband’s ransom. She procured the sum requisite, either from Italian merchants or from Jews. The lowest interest which she paid to them was above twenty per cent., and some of them exacted near thirty. In the fourteenth century, A. D. 1311, Phillip IV fixed the interest which might be legally exacted in the fairs of Champagne at twenty per cent. The interest of money in Arragon was somewhat lower. James I in A. D. 1242, fixed it by law at eighteen per cent. As late as the year 1490, it appears that the interest of money in Piacenza was at the rate of forty per cent. This is the more extraordinary, because at that time the commerce of the Italian States was become considerable.

“It appears from Lud. Guicciardini that Charles V had fixed the rate of interest in his dominions in the Low Countries at twelve per cent, and at the time when he wrote, about the year 1560, it was not uncommon to exact more than that sum. He complains of this as

exorbitant, and points out its bad effects both on agriculture and commerce. This high interest on money is alone a proof that the profits on commerce were exorbitant. The Lombards were also established in England in the thirteenth century, and a considerable street in the city of London still bears their name. They enjoyed great privileges, and carried on an extensive commerce, particularly as bankers." [Robertson's History of Charles V.]

The English monarchs frequently borrowed money of the Lombards, as well as of other public bodies and of private individuals. The companies of foreign merchants made advances of money, which were repaid by the duties on their merchandise. The oldest and wealthiest of these companies, the Steel-Yard Company, was a kind of bank to the English kings, whenever they wanted money on any sudden emergency, but the company was sure to be well paid in the end for such assistance.

Interest Made Legal.

In the year 1546, the taking of interest for money was made legal in England, and the rate was fixed at ten per cent. This Act was repealed in the year 1552, but it was re-enacted in 1571. The legal rate of interest was reduced to eight per cent in 1624, and to six per cent in 1651. In the year 1714 it was reduced to five per cent. After the taking of interest was sanctioned by law, the term *usury*, which was previously applied to interest in general, became limited, to denote a rate of interest higher than that which the law allowed.

3.—Money-Borrowing.

That part of the business of banking which consists in the borrowing of money, with a view of lending it again at a higher rate of interest, does not appear to have been carried on by bankers until the year 1645, when a new era occurred in the history of banking. The goldsmiths, who were previously only money-changers, now became also money-lenders. They became also money borrowers, and allowed interest on the sums they borrowed. They were agents for receiving rents. They lent money to the king on the security of the taxes. The receipts they issued for the money lodged at their houses circulated from hand to hand, and were known by the name of "goldsmiths' notes." These may be considered as the first kind of bank notes issued in England. The following account of these banking goldsmiths as given by Gilbart, is taken chiefly from Anderson's "History of Commerce."

When the English merchants became enriched by commerce, they wished for a place of security in which they might deposit their wealth. Hence they usually sent their money to the mint in the Tower of London, which became a sort of bank. The merchants left their money there when they had no occasion for it, and drew it out as they wanted it. But in 1640, King Charles I took possession of £200,000 of the merchants' money that had been lodged in the mint and from that period the merchants kept their money in their own houses, under the care of their servants and apprentices. On the breaking out of the civil war between Charles I and the parliament, it became very customary for the apprentices to

rob their masters, and then run away and join the army. As the merchants could now place no confidence either in the public authorities or in their own servants, they were under the necessity of employing bankers.

The Banking Goldsmiths.

These bankers were the goldsmiths. Previous to this period, the business of the goldsmith was similar to what it is in our own time. They bought and sold plate and foreign coins; they procured gold to be coined at the mint, and supplied refiners, plate-makers, and others with the precious metals. To deal in gold and silver bullion to any large extent implies the possession of considerable wealth; and as all the money in the country then consisted of gold and silver coin, it was natural enough that the goldsmiths should become the bankers of those who had money for which they had no immediate use.

An account of the bankers of those days is related in a curious pamphlet, published in the year 1676, and entitled, "The Mystery of the New-fashioned Goldsmiths; or Bankers Discovered." The author says: "This new banking business soon grew very considerable. It happened in those times of civil commotion, that the Parliament, out of plates and old coins brought into the mint, coined seven millions into half-crowns; and there being no mills then in use at the mint, this new money was of a very unequal weight, sometimes twopence and threepence difference in an ounce, and most of it was, it seems, heavier than it ought to have been in proportion to the value in foreign parts. Of this the goldsmiths made naturally the advantage usual in such cases, by picking out or culling the heaviest, and melting them down and exporting them.

"Moreover, such merchants' servants as still kept their masters' running cash, had fallen into a way of clandestinely lending the same to the goldsmiths at fourpence per cent per diem, who, by these and such-like means, were enabled to lend out great quantities of cash to necessitous merchants and others, weekly or monthly, at high interest, and also began to discount the merchants' bills at the like or higher interest.

"Much about the same time, the goldsmiths (or new-fashioned bankers) began to receive the rents of gentlemen's estates remitted to town, and to allow them and others who put cash in their hands some interest for it, if it remained but a single month in their hands, or even a lesser time. This was a great allurements for people to put money into their hands, which would bear interest till the day they wanted it; and they could also draw it out by one hundred pounds or fifty pounds, etc., at a time as they wanted it, with infinitely less trouble than if they had lent it out on either real or personal security.

"The consequence was, that it quickly brought a great quantity of cash into their hands, so that the chief or greatest of them were now enabled to supply Cromwell with money in advance, on the revenues, as his occasion required, upon great advantages to themselves.

"After the Restoration, King Charles II being in want of money, the bankers took ten per cent of him barefacedly and by private contracts; on many bills, orders, tallies, and debts of that king, they got twenty, sometimes thirty per cent, to the great dishonor of the government.

"This great gain induced the goldsmiths more and more to become lenders to the king, to anticipate all the

revenue, to take every grant of Parliament into pawn as soon as it was given; also to outvie each other in buying and taking to pawn bills, orders, and tallies, so that in effect all the revenue passed through their hands."

Blamed for Money Scarcity.

The "new-fashioned bankers" were also attacked by Sir Josiah Child, in his "New Discourse of Trade," in the following terms:

"And principally this seeming scarcity of money proceeds from the trade of banking, which obstructs circulation, advanceth usury, and renders it so easy, that most men, as soon as they can make up a sum of from £50 to £100, send it in to the goldsmith, which doth and will occasion, while it lasts, that fatal pressing necessity for money visible throughout the whole kingdom, both to prince and people.

"A seventh accidental reason why land doth not sell at present at the rate it naturally should in proportion to the legal interest, is that innovated practice of *bankers* in London, which hath more effects attending it than most I have conversed with have yet observed; but I shall here take notice of that only which is to my present purpose, viz:—

"The gentlemen that are bankers, having a large interest from his Majesty for what they advance upon his Majesty's revenue, can afford to give the full legal interest to all persons that put money into their hands, though for never so short or long a time, which makes the trade of usury so easy and hitherto safe, that few, after having found the sweetness of this lazy way of improvement (being by continuance and success grown

to fancy themselves secure in it), can be led (there being neither ease nor profit to invite them) to lay out their money in land, though at fifteen years' purchase; whereas before this way of private banking came up, men who had money were forced oftentimes to let it lie dead by them until they could meet with securities to their minds, and if the like necessity were now of money lying dead, the loss of use for the dead time being deducted from the profit of six per cent (*communibus annis*) would in effect take off £1 per cent per annum of the profit of usury, and consequently incline men more to purchase lands, because the difference between usury and purchasing would not, in point of profit, be so great as now it is, this new invention of cashiering having, in my opinion, clearly bettered the usurer's trade one or two per cent per annum. And that this way of leaving money with goldsmiths hath had the aforesaid effect, seems evident to me from the scarcity it makes of money in the country; for the trade of bankers being only in London, doth very much drain the ready money from all other parts of the kingdom."

The First Run on a Bank.

In the year 1667 occurred the first *run* of which we have any account in the history of banking. The business of the new-fashioned bankers had increased so fast, and they had become so numerous, that their trade was supposed to be at its height in this year; when, during the time that a treaty of peace was under consideration, the Dutch fleet sailed up the Thames, blew up the fort of Sheerness, set fire to Chatham, and burned four ships of the line. This disaster occasioned great alarm in

London, particularly among those who had money in their bankers' hands, as it was imagined that the king would not be able to repay the bankers the money they had lent him. To quiet the fears of the people, the king issued a proclamation, declaring that the payments to the bankers should be made at the Exchequer the same as usual.

In 1672, five years afterwards, a much greater calamity befell the bankers; for King Charles II shut up the Exchequer, and would not pay the bankers either the principal or the interest of the money which he had borrowed. The amount then due by the king was £1,328,526, which he had borrowed of the bankers at eight per cent., and which he never repaid.

The mode in which the bankers transacted their loans with the king was this: As soon as the parliament had voted to the king certain sums of money out of particular taxes, the bankers advanced at once the money voted by parliament, and were repaid in weekly payments at the Exchequer as the taxes were received. The mode of making the payments and the rate of interest were agreed upon at the time of making the loan.

The shutting up of the Exchequer occasioned great distress among all classes of the people. Persons not in trade had then no way of employing their money with advantage but by placing it out at interest in the hands of a banker. Hence, not merchants only, but widows, orphans, and others, became suddenly deprived of the whole of their property. They came in crowds to the bankers, but could obtain neither the principal nor the interest on the money they had deposited. The clamor be-

came so great that the king granted a patent to pay six per cent interest out of his hereditary excise; but he never paid the principal. But, about forty years afterward, the parliament made arrangements by which the debt was assumed to be discharged; that is, it became a part of the National Debt, but the creditors received nothing.

The business of banking remained entirely in the hands of the "new-fashioned" bankers until the establishment of the Bank of England, in the year 1694.

4.—Transmission of Money.

The transmission of money was in ancient times effected by sending a messenger with the coin. During the Middle Ages, it was accomplished by means of bills of exchange, which were purchased by merchants. Ultimately, a special class of persons carried on this kind of traffic, and purchased or sold bills to suit the convenience of parties who wished to deal with them. The pecuniary transactions of independent nations are still adjusted in the same way. But, the transmission of money from one part of the country to another part, is more frequently effected upon the principle of transfers, without the passing of any bill. This branch of banking is fully dealt with elsewhere.

The Bank of England.

Previous to the year 1694 there were only four banks of any great consequence in Europe, but on the 27th of July of that year a charter was granted by the reigning sovereigns, William and Mary, for establishing the Bank of England, which for opulence, importance, and extent of circulation became the greatest in the world.

The object of the promoters was to raise money for the use of the government. When the scheme was brought before the parliament, it caused a long and violent discussion. One party dwelt upon the national advantages that would accrue from such a measure. They said it would rescue the nation out of the hands of extortioners and usurers, lower the rates of interest, raise the value of land, revive and establish public credit, extend the circulation, and consequently improve commerce, facilitate the annual supplies for the national expenses, and connect the people more closely with the government.

The opposition party declared that such a bank would become a monopoly and engross the whole money of the kingdom; that it must infallibly become subservient to government views, and might be employed for the worst purposes of arbitrary power; that instead of assisting, it would weaken commerce, by tempting people to withdraw their money from trade and employ it in stock-jobbing; that it would produce a swarm of brokers and jobbers to prey upon their fellow-creatures, encourage fraud and gambling, and thus corrupt the morals of the nation.

Notwithstanding these objections, the Act passed both houses of parliament, and received the royal assent.

Opposition of Foreign Competitors.

It was noticed that foreign competitors for English trade strongly opposed the project, and not long after the bank had been established, Bishop Burnet wrote: "The advantages the king and all concerned in tallies had from the bank were soon so sensibly felt that all people

saw into the secret reasons that made the enemies of the constitution set themselves with so much earnestness against it.'

In the English Exchequer, the "tallies" referred to by Bishop Burnet were long used in lieu of certificates of indebtedness to creditors of the state. These tallies were seasoned sticks of willow or hazel, notched on the edge to represent the amount. Small notches represented pence; larger notches shillings; and still larger, pounds. Proportionately larger and wider notches represented £10, £100, or £1000. The stick being then split longitudinally, one piece was given to the creditor and the other was laid away as a record. When an account was presented for payment, the voucher was compared with the record. When paid, the tally and counter-tally were tied up together and laid away, accumulating for a long series of years. This system was in use until 1812. The tallies were received as evidence in courts of justice.

The Act of Parliament.

The act of Parliament by which the bank was established was entitled, "An Act for granting to their Majesties several duties upon tonnage of ships and vessels, and upon beer, ale, and other liquors, for securing certain recompenses and advantages in the said Act mentioned, to such persons as shall voluntarily advance the sum of fifteen hundred thousand pounds towards carrying on the war with France." After a variety of enactments relative to the "duties upon tonnage of ships and vessels, and upon beer, ale, and other liquors," the Act authorizes the raising of £1,200,000 (\$6,000,000) by voluntary subscription, the subscribers to be formed in-

to a corporation, and be styled "The Governor and Company of the Bank of England." The sum of £300,000 was also to be raised by subscription, and the contributors to receive instead annuities for one, two, or three lives. Towards the £1,200,000 no one person was to subscribe more than £10,000 before the first day of July next ensuing, nor at any time more than £20,000. The corporation were to lend their whole capital to government, for which they were to receive interest at the rate of eight per cent per annum, and £4,000 per annum for management; being £100,000 per annum in the whole. The corporation were not allowed to borrow or owe more than the amount of their capital, and if they did so the individual members became liable to the creditors in proportion to the amount of their stock. The corporation were not to trade in any "goods, wares, or merchandise whatsoever;" but they were allowed to deal in bills of exchange, gold or silver bullion, and to sell any goods, wares, or merchandise upon which they had advanced money, and which had not been redeemed within three months after the time agreed upon.

Provisions of the Charter.

The whole subscription having been filled in ten days, a charter was issued on the 27th day of July, 1694. The charter declares:

"That the management and government of the corporation be committed to the governor, deputy-governor, and twenty-four directors, who shall be elected between the 25th day of March and the 25th day of April each year, from among the members of the company duly qualified.

“That no dividend shall at any time be made by the said governor and company, save only out of the interest, profit, or produce arising out of the said capital, stock, or fund, or by such dealing as is allowed by Act of Parliament.

“They must be natural born subjects of England, or naturalized subjects; they shall have in their own name and for their own use, severally, viz., the governor at least £4,000, the deputy-governor £3,000, and each director £2,000, of the capital stock of the said corporation.

“That thirteen or more of the said governors or directors (of which the governor or deputy-governor shall be always one), shall constitute a court of directors for the management of the affairs of the company, and for the appointment of all agents and servants which may be necessary, paying them salaries as they may consider reasonable.

“Every elector must have, in his own name and for his own use, £500 or more, capital stock, and can only give one vote; he must, if required by any member present, take the oath of stock, or the declaration of stock if it be one of those people called Quakers.

“Four general courts to be held in every year, in the months of September, December, April, and July. A general court may be summoned at any time, upon the requisition of nine proprietors duly qualified as electors.

“The majority of electors in general courts have the power to make and constitute by-laws and ordinances for the government of the corporation, provided that such by-laws and ordinances be not repugnant to the laws of

the kingdom, and be conformed and approved, according to the statutes in such case made and provided."

The above charter, which was originally granted for ten years only, has been subject to many renewals. The capital of the bank has been vastly increased and its operations have been governed by numerous acts of parliament. It enjoys a wonderful record for wise and conservative management, and is an institution of which the entire British Empire is justly proud.

Agents for the Government.

In 1718, subscriptions for government loans were first received at the bank, and from this period the British government has found it more convenient to employ the bank as its agents in all operations of this nature, than to transact them at the Treasury or the Exchequer. The bank became by degrees more closely connected with the government, and soon began to make advances of money in anticipation of the taxes, and upon Exchequer bills and other securities, by the establishment of what is now called *bank circulation*; that is by the issuance of secured notes.

By 1722, the bank capital had increased by new subscriptions to a total amount of approximately £9,000,000 or nearly \$45,000,000. In 1734, June 5th, the directors began to transact business in their new house in Threadneedle Street, in the heart of the city of London. The business of the bank had previously been carried on at Grocers' Hall, in the Poultry. Since that day "the Old Lady of Threadneedle Street" has led the financial institutions of the world.

In 1737 there was considerable public discussion about the propriety of again renewing the bank charter. In the course of the public debate, the following opinion of the bank operations was expressed in the *London Magazine*:

“There certainly never was a body of men that contributed more to the public safety than the Bank of England. This flourishing and opulent company have, upon every emergency, always cheerfully and readily supplied the necessities of the nation, so that there never have been any difficulties—any embarrassment—any delays in raising the money which has been granted by parliament for the service of the public; and it may very truly be said that they have, in very many important conjunctures, relieved the nation out of the greatest difficulties, if not absolutely saved it from ruin.”

Events in the Bank's History.

In 1745, there was a run upon the bank, occasioned by the rebellion in Scotland, and supposed to be for the purpose of supplying the adherents of the Stuarts with gold. A public meeting was held in London and one thousand one hundred and forty merchants signed a declaration expressing their readiness to take the bank notes.

The 3 per cent. consols were established by means of the bank in 1752 and have ever since been a famous government stock. The word “consols” is a contraction for “consolidated.” Outstanding government annuities were consolidated in the 3 per cents.

In 1758 occurred the first instance of a forgery of a bank note. The note was for £20, the smallest amount

then in circulation. The forger was promptly convicted and executed.

In 1782, the total capital of the bank was increased to £11,642,400, or approximately \$58,000,000. There was no further increase of capital until the year 1816, since which time it has been largely increased.

In 1794, the bank commenced issuing its famous £5 notes.

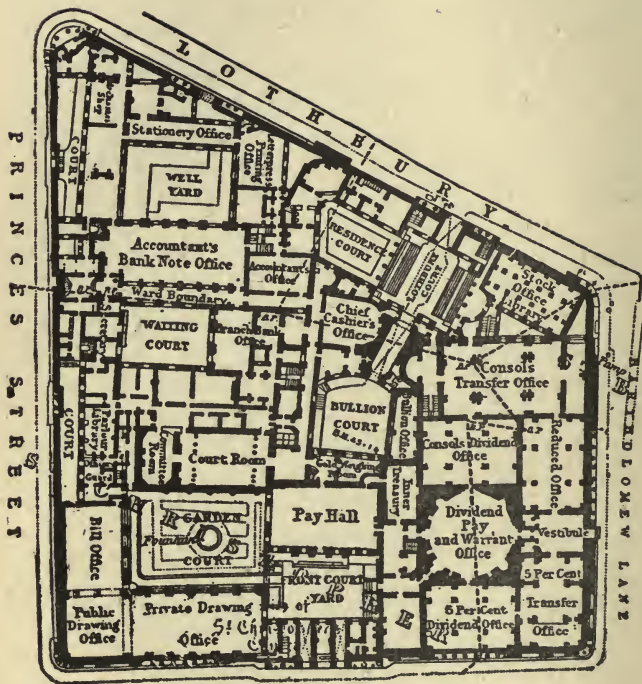
During various periods of financial depression, the government of England has rendered assistance to the bank by timely administrative action, enabling it to maintain its high reputation and meet all its obligations; and the bank on its side has made many advances to the government, besides managing the public debt and otherwise aiding in the operation of the government finances. It enjoys certain exclusive privileges of banking in England, and fixes the bank rate of discount at regular meetings or "courts" of its board of governors, which are referred to elsewhere in connection with the subject of Foreign Exchange.

The Bank of England building covers a whole block bounded on the south by the famous Threadneedle Street. Outside it presents the appearance of a blind outer wall of a great building without windows, and having here and there ornamental pillars and few entrances. The plan, as shown in our illustration, is a complex system of light-walls, offices, court yards, etc., the result of growth and necessity.

Among the curiosities in the bank library is a million pound bank note. Tradition says that there have been only four such notes issued. Samuel Rogers, the poet, had one framed and hung over his parlor mantelpiece.

Another curiosity in the bank library is a note for £25, which had slumbered unobserved for 111 years, and was then presented and paid. If compound interest had been payable by the bank, the owner could have claimed over £60,000.

About 50,000 notes of different values are paid into the bank every day. These are kept five years in the bank cellars and are then destroyed by burning. New notes are always given out in payment of bills and checks.



Plan of the Bank of England.

CHAPTER V.

THE UTILITY OF BANKING.

In a commercial community banks possess a large sphere of usefulness. Their utility has been well described as six-fold: First, they furnish a safe repository for money; second, they encourage thrift by the payment of interest on deposits; third, they render useful service to all engaged in production, transportation and exchange of commodities; fourth, they also render useful service to their customers by furnishing exchange and otherwise arranging for the transmission of money; fifth, the check system affords a useful record of individual expenditures; sixth, by collecting money in a large aggregate, they render it more effective for purposes of trade and enterprise.

But this list does not include all of the particulars in which banks benefit the business community. As we shall presently see, they afford a convenient and valuable means for the interchange of information affecting credit; they are useful to business men of probity as references; they keep the community supplied with convenient "change"; in many places they afford the only means of safe deposit for valuables; and last, but by no means least, they exert a tremendous moral force in behalf of honesty, truthfulness, industry, perseverance, thrift, prudence and punctuality.

The Safe-keeping of Money.

In the first place, banks are useful as places of security for the deposit of money. The circumstances which gave rise to the business of banking in England was a desire on the part of the merchants of London to obtain a place where they might lodge their money in security. Every one who has had the care of large sums of money knows the anxiety which attends their custody. A person in this case must either take care of his money himself, or trust it to his employees. If he takes care of it himself, he will often be put to inconvenience, and will have to deny himself holidays and comforts, of which a man who is possessed of much money would not like to be deprived. If he intrusts it to others, he must depend upon their honesty and their ability. And, although in many important cases an employer is compelled to do this, yet he does not feel the same satisfaction as if the money was actually under his own care. Some instances of neglect or of dishonesty will necessarily occur, and these will occasion suspicion in reference to other parties against whom no suspicion ought to be entertained. Besides, in both these cases, the money is lodged in insecure premises, and is subject to thieves, to fire and to other contingencies, against which it is not always easy to guard.

All these evils are obviated by means of banking. The owner of money need neither take the charge of it himself, nor trust to his dependents. He can place it in the hands of his bankers. They are responsible men or institutions and are accountable to him for the amount. If they are robbed, it is no loss to him; they are pledged to

restore to him the amount of his deposit when he shall require it. Whenever he wants money he has only to write an order, or check, upon his banker, and the person to whom he is indebted takes the check to the bank, and without any hesitation or delay receives the money.

The Allowance of Interest.

The bankers often allow interest for money placed in their hands on deposit. This is a direct incentive to thrift, especially in the case of depositors in savings banks.

By means of banking, the various small sums of money which would have remained unproductive in the hands of individuals, are collected into large amounts in the hands of the bankers, who employ it in granting facilities to trade and commerce. Thus banking increases the productive capital of the nation. At the origin of banking, "the new-fashioned bankers," as they were called, allowed a certain rate of interest for money placed in their hands. The banks of Scotland carry this practice to the greatest extent, as they receive upon interest so low an amount as ten pounds, and also allow interest on the balance of a running account. Many of the country bankers in England allow interest on the balance of a running account, and charge commission on the amount of the money withdrawn. The London bankers generally do not allow interest on deposit, but neither do they charge commission. All their profits are derived from the use of their customers' money. The banks of Scotland do not charge commission, although they allow interest on deposits; but then those banks have a profit by the issue of their notes. The London bankers do not is-

sue notes. The practice of paying interest on general deposits is becoming more common in America.

The Loaning of Money.

Another benefit derived from bankers is, that they make advances to persons who want to borrow money. These advances are made—by discounting bills or notes—upon personal security—upon the joint security of the borrower and two or three of his friends—and sometimes upon mortgage. Persons engaged in trade and commerce are thus enabled to augment their capital, and consequently their wealth. The increase of money in circulation stimulates production.

When bankers are compelled to withhold their usual accommodation, both the commercial and the agricultural interests are plunged into extreme distress.

The great advantage arising to a neighborhood from the establishment of a bank, is derived mainly from the additional supplies of money advanced in the form of loans, or discounts, to the inhabitants of the place.

The Transmission of Money.

Another benefit derived from bankers is, that they transmit money from one part of the country to another.

There is scarcely a person in business who has not occasion sometimes to send money to a distant town. But how is this to be done? He cannot send a messenger with it on purpose—that would be too expensive. He cannot send it by mail—that would be too hazardous. How, then, is the money to be sent? In England, for example, every country banker opens an account with a London banker. If, then, a person lives in Bristol and wants to

send a sum of money to Aberdeen, he will pay the money into the Bristol bank, and his friend will receive it of the Aberdeen bank. The whole transaction is this: the Bristol bank will direct its agent in London to pay the money to the London agent of the Aberdeen bank, who will be duly advised of the payment. A small commission charged by the Bristol bank, and the postages, constitute all the expenses incurred, and there is not the least risk of loss.

Commercial travelers, who collect money, derive great advantage from the banks. Instead of carrying with them, throughout the whole of their journey, all the money they have received, when perhaps it may be wanted at home, they pay it into a bank, by which it is remitted with the greatest security, and at little expense; and they are thus delivered from an incumbrance which would have occasioned great care and anxiety.

Exchange of Currency.

Wherever a bank is established, the public is able to obtain that denomination of currency which is best adapted for carrying on the commercial operations of the place. In a town which has no bank, a person may have occasion to use small notes, and have none but large ones; and at other times he may have need of large notes, and not be able to obtain them. But where a bank is established there can be no difficulty of this kind. The banks issue that description of notes which the receivers may require, and are always ready to exchange them for others of a different denomination.

Banks, too, usually supply their customers and the neighborhood with gold and silver coinage as required;

and if, on the other hand, silver or gold should be too abundant, the banks will receive it, either as a deposit, or in exchange for their notes. Hence, where banks are established, it is easy to obtain change. This is very convenient to those who have to pay large sums in wages, or who purchase in small amounts the commodities in which they trade.

An Economy of Time.

By means of banking there is a great saving of time in making money transactions. How much longer time does it take to count out a sum of money, especially in various European currencies, than it does to write a check. And how much less trouble is it to receive a check in payment of a debt, and then to pay it into the banker's, than it is to receive a sum of money in currency. What inconveniences would arise from the necessity of weighing gold coins! What a loss of time from disputes as to the goodness or badness of particular pieces of money!

Besides the loss of time that must necessarily occur on every transaction, we must also reckon the loss which every merchant or tradesman, in an extensive line of business, would certainly sustain in the course of a year from receiving counterfeit or deficient coin, or it may be, spurious notes. From all this risk he is exempt by having a banker. If he receives payment of a debt, it is in the form of a check upon his customer's banker. He pays it into his own banker's, and no coin or bank notes pass through his hands. If he makes drafts, those drafts are presented by his banker: and if his banker takes bad money it is his own loss.

Collection of Drafts.

A business man who has a banker saves the trouble and expense of presenting those bills or drafts which he may draw upon his customers, or which he may receive in exchange for his goods. He pays these into the hands of his banker, and has no further trouble. He has no care about the custody of his bills receivable—no anxiety about their being stolen—no danger of forgetting them until they are over-due, and thus exonerating the indorsers—no trouble of sending to a distance in order to demand payment. He has nothing more to do than to see the amount entered to his credit in his banker's books. If a draft or note be not paid it is brought back to him on the day after it falls due, properly noted. The banker's clerk and the notary's clerk are witnesses ready to come forward to prove that it has been duly presented, and the notary's ticket attached to it assigns the reason why it is not paid.

This circumstance alone may cause an immense saving of expense to a mercantile house in the course of a year. Doing business through a banker also prevents loss from various kinds of mistakes that may be made by the employees of a business house. In a banking-house mistakes are not so likely to occur, though they do occur sometimes; but the loss falls upon the banker, and not upon his customer.

Still another advantage from having a banker is, that by this means the business man has a continual referee as to his respectability. If the banker is applied to through the proper channel, he gives his testimony as to the respectability of his customer. This may be an immense

advantage to a man in business, as a means of increasing his credit; and credit, as Dr. Franklin says, is money.

The keeping an account at a banking-house enables a merchant not only to give a constant reference as to his own respectability, but it also enables him to ascertain the respectability of other persons who deal with bankers. There are numerous cases in which a merchant may wish to know this, especially where such facilities as Dun's and Bradstreet's reports, with which every American business man is familiar, are lacking.

Among nearly all the bankers in London, says Gilbert, "the practice is established of giving information to each other as to the respectability of their customers. For as the bankers themselves are the greatest discounters of bills, it is their interest to follow this practice; and indeed the interest of their customers also, of those at least who are respectable."

A Record of Expenditures.

By means of banking, people are able to preserve an authentic record of their annual expenditure. If a person pays in to his banker all the money he receives in the course of a year, and makes all his payments by checks—then by looking over his bank-book at the end of the year he will readily see the total amount of his receipts, and the various items of his expenditure.

"This is very useful to those who have not acquired habits of business, and who may therefore be in danger of living beyond their means. It is useless to advise such persons to keep an account of their expenses—they will do no such thing; but when short of money at Christmas to pay their bills, they may take the trouble of looking

over their bank-book, and noticing how many checks were drawn for the purchase of unnecessary articles."

A bank account is useful also in case of disputed payments. People do not always take receipts for money they pay, and when they do the receipts may be lost or mislaid. In case of death, or of omission to enter the amount in the creditor's books, the money may be demanded again. Should the payment have been made in currency, the payer can offer no legal proof of having settled the account; but if the account was discharged by a check on a banker, the check itself can be produced, and the payment proved by the officers of the bank, who can be subpœnæd for that purpose.

Safe Deposit for Valuables.

Another advantage resulting from a banker in many places that lack safe deposit vaults is, that the customer has a secure place of deposit for any deeds, papers, or other property that may require peculiar care. If a party were going to the country he might send his plate or jewelry to his banker, who will lock it up in his strong room, and thus it will be preserved from fire and thieves until his return. European lawyers, stockbrokers, and others, who have deeds, securities or other documents of importance left in their custody, can send them to the bank during the night, and thus avoid the danger of fire. In America, safety deposit vaults are now found in every city of importance, often operated in connection with banks. In the smaller cities, towns and villages, the banker is a universal custodian of valuables for his depositors.

Valuable Help in Business.

By having a banker, people have a ready channel of obtaining much information that will be useful to them in the way of their business. They will learn the way in which bankers keep their accounts; and may learn many of the laws and customs relating to negotiable paper. They may obtain assistance in remitting money to distant places and so save themselves trouble and possible loss. If they have to buy or sell bonds, stocks, or shares the banker can send them to a respectable broker, who can manage the business; or should they be about to travel, and wish to know the best way of receiving money abroad; or be appointed executors to a will, and have to settle money matters—the banker will in these and many other cases, be able to give them the necessary information.

A Moral Influence for Good.

Banking also exercises a powerful influence upon the morals of society. It tends to produce honesty and punctuality in pecuniary engagements. Bankers, for their own interest, always have a regard to the moral character of the party with whom they deal; they inquire whether he be honest or tricky, industrious or idle, prudent or speculative, thrifty or extravagant, and they will more readily make advances to a man of moderate property and good morals than to a man of large property but of inferior reputation.

Thus the establishment of a bank in any place immediately advances the pecuniary value of a good moral character. There are numerous instances of persons having risen from obscurity to wealth only by means of

their moral character, and the confidence which that character produced in the mind of their banker. It is not merely by way of loan or discount that a banker serves such a person. He also speaks well of him to those persons who may make inquiries respecting him and the banker's good opinion will be the means of procuring him a higher degree of credit with the parties with whom he trades.

These effects are easily perceivable in country towns; and even in great cities, if a house be known to have engaged in speculative transactions, or in any other way to have acted questionably, their paper will be taken by the bankers less readily than that of a strictly reputable house of inferior property.

It is thus that bankers perform the functions of public conservators of the commercial virtues. From motives of private interest they encourage the industrious, the prudent, the punctual, and the honest—while they discountenance the spendthrift and the gambler, the liar and the knave. They hold out inducements to uprightness, which are not disregarded by even the most abandoned. There is many a man, says Gilbart, truly, who would be deterred from dishonesty by the frown of a banker, though he might care but little for the admonitions of a bishop.

“Whether it is your form of organization and total of bills receivable, or the time you arrive at the office and the church you attend—every fact counts with the bank. The answer to what it wants to know is—everything.”

CHAPTER VI.

THE METHODS OF BANKING.

BY SEYMOUR EATON.

Banks are absolutely necessary to the success of modern commercial enterprises. They provide a place for the safe-keeping of money and securities, and they make the payment of bills much more convenient than if currency instead of checks were the more largely used. But the great advantage of a banking institution to a business man is the opportunity it affords him of borrowing money, of securing the cash for the carrying on of his business, while his own capital is locked up in merchandise or in the hands of his debtors. Another and important advantage is to be found in the facilities afforded by banks for the collection of checks, notes, and drafts.

Currency.

The legal medium of exchange of a country is called its currency, that which passes current, or circulates as money, such as coin and bills. *Bullion* is uncoined gold or silver. More than ninety per cent of the *cash* circulation of the country is represented by checks, etc., and not by actual money.

Organization of Banks.

The national banks are organized under national laws while state banks, savings banks, etc., are organized under the laws of the State in which they are located.

Any person who has money and credit can start a private bank. Some of the largest banking institutions of the world are owned by private individuals, and are not subject to law any more than is any other kind of business concern.

The act of Congress of 1864 fixes the corporate life of a national banking association at twenty years. Under date of July 12, 1882, an act was passed authorizing extensions for an additional period of twenty years, and second extensions were authorized by the act of April 12, 1902. From 1882 to October 31, 1909, first extensions of charters were granted to 2,795 banks and under the act of 1902 to 969 banks.

Section 5133 of the Revised Statutes, formerly section 5 of the act of June 3, 1864, provides for the organization of national banking associations by any number of natural persons not less than five. The law confers authority upon the Comptroller of the Currency to approve the corporate title of an association and also to withhold his certificate authorizing an association to begin business when, as the result of special examination or otherwise, it is ascertained that the association has been organized for purposes other than those contemplated by the act. It is further provided that no banks shall be organized with capital less than \$100,000 unless sanctioned by the Secretary of the Treasury. This was reduced to \$25,000 in certain cases, in 1900.

To avoid formation of associations for ulterior purposes or by those lacking the qualifications necessary to successful conduct of the banking business, or in a place the population and business of which are insufficient to

warrant the establishment of a national bank, the Comptroller, upon receipt of an application to organize, causes a special investigation to be made, the results of which determine the favorable or unfavorable action.

The expansion of the national banking system along normal, safe, and conservative lines is unquestionably desirable, but the Comptroller of the Currency takes the view that the organization of a bank is not warranted in a community where there is no reason for its existence; that is, where sufficient business would not naturally come to warrant success, or where the board of directors will not be composed of men of business ability equal to the best to be found in the community, or where the organization is attempted by promoters who, by public and private means, create a false impression that a bank is needed and that success is assured by merely obtaining subscriptions to the capital stock. Comparatively few applications for authority to organize national banks are rejected, however.

From the date of the establishment of the national banking system in 1864 to October 31, 1909, charters were granted to 9,572 national banking associations, of which 2,063 have been placed in voluntary liquidation and 484 failed. The number of banks in operation at the close of the year 1909 was 7,025. Included in the 9,572 associations chartered are 1,503 banks, with original capital of \$320,755,928, which were conversions of state banks.

Since March 14, 1900, the date of the act of Congress authorizing the organization of banks with capital of \$25,000, charters have been granted to 4,308 associations.

with capital of \$261,083,300, a number greater by 691 than the number of banks in existence on the date of the passage of the act in question. The number of banks organized during this period (1900 to 1909) includes 2,768, with capital of \$72,105,500, which were organized under the act of March 14, 1900, and 1,540, with capital of \$188,977,800, organized under the act of 1864 with individual capital of \$50,000 or over.

The Officers of a Bank.

The directors of a bank meet regularly to consider the character of the paper offered for discount, and to consult regarding the general business of the bank. Sometimes the directors give the president or cashier authority to pass upon paper offered for discount.

The ordinary officers of a bank are the President, who is the chief executive officer; the Cashier, who is the manager of the internal workings of the bank; the Paying Teller, who pays out all moneys and has charge of the working cash of the bank; he is familiar with the signature of each depositor and with his daily balance, and is really one of the most important officers of the bank. The Paying Teller should be a man of good ability, a man who can read motives from appearances, a man of quick and accurate judgment, and withal, a man of patience and unwavering good nature. The Receiving Teller receives all moneys coming into the bank, and makes the entries in the depositors' pass books. The Note Clerk has charge of the commercial paper handled. The Bookkeeper and his assistants have charge of the ledgers and other account books.

Suggestions to Bank Clerks.

Ability, enthusiasm, tact and determination are as necessary in banking as in any other commercial situations. Many of the most successful bankers in the country commenced as messengers and passed from one office to another until they became presidents. It should be the constant endeavor of officers of a bank who hold superior positions to cultivate and develop the self-respect of their subordinates. Faithful service and manly character in a janitor are entitled to just as much honor and to as full recognition as that rendered by a cashier. The man makes the place, not the place the man.

It is the general opinion of bankers that the demand for the right sort of bank-clerk is much in excess of the supply. No young man, however, should think of entering upon banking as a profession, unless he has a real love for the business.

The best position for a young man, and the one affording the largest opportunity for promotion will be that of general assistant. It is considered better to enter upon a clerkship in a small bank than in a very large one, for the reason that the steps in the ladder of success are fewer and closer.

The successful clerk must have a true appreciation of the value of time. Every minute should be strictly given to the work of the bank. In the matter of promptness the higher officers should set a good example for those in subordinate positions. There are exceptions, but as a rule promotions are not the result of chance. The man in any calling who has the ability and the desire to do greater things will sooner or later be called upon to do them.

The Bank's Cash.

The actual usable cash of a bank is represented by the silver, gold and bills on deposit.

It is estimated that the gold in use in the world amounts to \$7,000,000,000, and that an equal amount has been lost through wear and other causes since the earliest times. A million dollars in gold could be put into a box two feet square and a foot deep. All the gold in the world could be put into a room 64 feet by 50 feet with a height of 20 feet. It is estimated that a million dollars worth of gold is each year buried in the cemeteries of the United States in the mouths of the dead.

The gold in our banks lies piled in bags containing \$5,000 each. Each bag weighs twenty-two pounds. Standard gold is worth \$18.96 an ounce, and a \$20 gold piece weighs $21\frac{1}{2}$ pennyweights. In shipping gold from New York to London it is estimated that a million dollars in gold may be reduced in value, by the coins rubbing against each other, about \$175.

If a standard gold coin falls short one-half of one per cent. of its original standard weight, it is marked "light weight" the moment it reaches the United States Treasurer. It then ceases to travel as money.

The United States bills which are considered cash are of a variety of kinds. There are in circulation over \$300,000,000 of treasury notes of the following denominations: \$1, \$2, \$5, \$10, \$50, \$100, \$500, \$1000. These are payable in *coin*, either gold or silver.

The national bank notes are really promissory notes, issued by the banks, and payable on demand. They are secured by, and issued upon, United States bonds.

Every national bank must redeem its notes in full in lawful money at the treasury in Washington or over its own counter whenever a demand for payment is made. The denominations of the national bank notes are the same as those of the Treasury notes, except that there are no bills smaller than \$5.

The silver certificates are notes issued by the United States government and payable on demand in silver dollars. Some hundreds of millions of dollars of this form of money are now in circulation.

Notwithstanding the fact that the paper used is of the very best quality, paper money, the world over, is constantly becoming ragged and mutilated.

It may be well to quote here the law which regulates the redemption of mutilated bills. If the whole face of a note is in a condition which will permit its being recognized as a genuine bill it will be paid in full. If not more than two-fifths of the paper of a national bank note is gone and the note shows the name of the bank and the signature of one of its officers, it will be paid in full.

United States notes, Treasury notes of 1890, fractional-currency notes, gold certificates, silver certificates, and national-bank notes, when mutilated so that less than three-fifths, but clearly more than two-fifths, of the original proportions remains, are redeemable by the Treasurer only, at one-half the face value of the whole note or certificate. Fragments not clearly more than two-fifths are not redeemed, unless accompanied by a satisfactory affidavit.

Fragments less than three-fifths are redeemed at the face value of the whole note when accompanied by an affidavit of the owner or other person having knowledge of the facts that the missing portions have been totally destroyed.

Counterfeit Notes.

All United States notes are printed in sheets of four notes of one denomination on each sheet. Each note is lettered and numbered twice. All notes of which the number when divided by 4, shows remainder of *one*, have the check letter A; a remainder of 2, the check letter B; a remainder of 3, the check letter C; those numbers which divided by 4 show no remainder, have the check letter D. Any United States note the number of which cannot be divided by 4 and show one of the foregoing results is a *counterfeit*.

There are no secrets in the art of detecting counterfeits. Careful study, long experience, and a thorough familiarity with all kinds of genuine bills, will make any person an expert. Banks are required by law to stamp as "Counterfeit" all *bad bills* coming into their possession.

Bank Loans.

A portion of the loans of many banks consists of investments in solid bonds, but the bulk of the loans of banks are made on commercial paper; time and demand loans are made upon collaterals of many descriptions. The larger banks loan, on an average, from fifty to one hundred thousand dollars a day. A very large proportion of the commercial paper discounted is first handled by note brokers.

Banks *discount* paper for their depositors—and simply term the operation discounting; but when they go outside of their line of depositors, in making investments in time paper, they call it *buying* paper. They generally buy from private bankers and note brokers.

National banks are prohibited from loaning over ten per cent. of their capital to any one individual or corporation, except upon paper representing actually existing merchandise.

Accurate Interest.

The Treasury Department at Washington pays accurate interest, founded on a basis of 365 days to the year. The great majority of banks pay and charge interest on a basis of 360 days to the year.

Money "On Call."

National banks located in clearing-house centers, find it a very convenient thing to put out quite a percentage of their loans *on call*. In some cities banks have a habit of borrowing on call from each other at clearing-house settlements. Call loans are payable on demand and are secured by demand notes.

Collaterals.

If a business man borrow \$1,000 from a bank on his note and give ten shares of stock to the bank to be held by it simply as security, the stock thus given would be termed *collateral*. These collaterals are not the bank's property, and the bank is responsible for their safe-keeping. If coupons mature while bonds are being held as collateral, the owners are usually allowed to collect the amount for which they sell. Sometimes one note is given as collateral security for another which is discounted.

The Name "Bank."

In some of the states the title *Bank* can be lawfully used by anyone; in other states, for instance, New York and Massachusetts, the title *Bank* can be used only by

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duly incorporated banks which are organized and conducted under the provisions and restrictions of the state banking laws.

Borrowing from Banks.

It is the business of a bank to loan money to responsible persons, within reasonable limits. The regular customer of the bank is entitled to and will receive the first consideration if the demand is larger than the bank can safely meet.

A business man should not hesitate, when occasion requires, to offer his bank any paper he may want discounted, if in his opinion it is good, nor should he be offended if his banker refuses to take it, even without giving reasons.

Make your own notes and acceptances payable at your bank. Keep a careful record of the dates of maturity of all paper which you make or indorse. It is usually better, that is, more convenient to the holder, to pay your note early on the day it falls due, rather than a day or two before.

Rates for Loans.

In loaning money on demand, when it is strictly understood between bank and borrower that the money so advanced is positively minute money—money returnable at any minute, when the bank calls for it—banks usually charge low rates of interest. When interest rates are high, bankers prefer to deal in long-time paper. This general rule is reversed when the situation is reversed.

Bankers aim also to scatter and locate their maturities so that as the seasons roll around, they will not have

very large amounts maturing at one time and very small amounts at another. They plan also to be "in funds" at those seasons when there is always a large and profitable demand for money. For instance in the centers of the cotton manufacturing interest the banks count on a large demand for money between October and January when the bulk of the purchases to supply the mills are made: again, among those who operate and deal in wool there is an active demand for money in the wool clip in the spring months. The wheat and corn crops are autumn consumers of money. Midwinter and midsummer in the north are usually periods of comparative stagnation in the money market.

All these things affect rates, and the successful banker is he who from observation and large experience shows the most skill in timing his money supply.

When Interest Accrues.

There are certain well-defined principles which make clear when interest is accruing and when it is not. Money voluntarily left by any one in the hands of another will not, of course, draw interest unless a specific mutual agreement to that effect is made. In most cases, a demand note bears interest even though there be no statement to this effect on the face of the note.

Money on deposit in a bank without an agreement to pay interest will not accumulate interest even though it remain fifty years.

Forged Indorsements.

A bank is supposed to know the signatures of its depositors. It is one of its first and most important duties

to have them on file and immediately accessible by the use of a well-kept signature book.

Holder of checks, in very many cases, know nothing about these drawer-signatures. They have taken them, supposing, of course, that they are genuine. When they have collected the checks at the banks upon which they are drawn they are to a very great extent relieved of all further responsibility as to the signatures of the signers, for the bank by paying them has guaranteed their genuineness.

But the bank which cashes for a good holder a much-indorsed check, the signature of which is all right, generally knows nothing about its many indorsements beyond the fact that they seem to be all right and stand there in regular order, apparently correctly made. For the honesty and genuineness of these many or few preceding indorsements the last holder, for whom the check is cashed, whether he indorse the check or not, is fully and legally held, and no reasonable lapse of time before a discovery of the forgery is made will relieve him of this liability.

Trust Companies.

The ordinary trust company with which city people are familiar is very similar in its management to a national bank. They invest their deposits and capital in the same class of securities, and they are equally careful and conservative in the matter of their loans. They receive money on deposit subject to checks and allow interest on deposits which exceed a nominal sum—usually from \$300 to \$1,000. They are organized under and are subject to state laws. They have connection with

the clearing-houses either direct or through some convenient national bank.

Trust companies are in form of organization very similiar to the great joint-stock banks of England. They are usually authorized to receive and hold moneys and property in trust and on deposit from courts of law or equity, executors, administrators, assignees, guardians, trustees, corporations, and individuals, and may be appointed by probate courts trustees under any will, upon such terms and conditions as may be agreed upon. They act as trustees for widows or children, take charge of and manage property, and collect interest and rent. They act as transfer agents for railroad and other stock, and as agents for the purpose of issuing, registering, or countersigning the certificates of stock, bonds, or other evidences of debt, and for the payment of dividends. They act as agents or attorneys for the care and management of invested property.

Safe Deposit Vaults.

Many of the banks, trust companies, and insurance companies make a special feature of renting small safe deposit boxes or drawers in their vaults to any and every person who chooses to pay the rent asked, which depends largely on the amount of space needed and is usually from \$3 to \$10 for the smallest sized box. It is very convenient for one who has not a safe of his own to have a secure place in which to keep valuable papers.

In many of the larger safe deposit vaults there are desks and stationery for customers, so that one may at any time and very conveniently and privately examine one's papers and make entries or indorsements, or add new vouchers, or make changes, as the occasion may require.

A Depositor's Credit.

As a rule, banks do not make known even to a single individual the extent of a customer's business or the size of his bank account. However, any shareholder in a bank has a right, as one of the proprietors, to examine the books, so long as such examination is not an unreasonable interference with the regular routine of work, and it is pretty generally known that a large depositor can either directly or through some other bank get at the condition of a small depositor's account.

Giving Bonds for Faithful Service.

Bank clerks and officers are usually required to give bonds, that is, they must get some person to go their surety, thus guaranteeing faithful service, and agreeing to make good any losses caused by defalcation or carelessness. There are now several surety companies that give bonds for everyone and anyone whom they consider a "good risk" upon the payment of certain premiums as in insurance.

If a young man is an applicant, say, for a cashier's position in a mercantile house and the house requires that some one give a bond, that is, go his surety for \$10,000, and the young man has no rich father or uncle to guarantee the house against loss, he applies to a bond insurance company and if his record and habits are good he has no difficulty in securing the necessary papers.

The amount of the bond required depends upon the importance of the position applied for. Presidents of banks do not usually give bonds.

The bonds of personal friends have always a good deal of moral weight and force and for this reason are

Know all Men by these Presents,

That we,.....*Henry Biron*.....as principal, and*James Carr*.....and *Henry Johnson*.....as sureties, are holden and stand firmly bound unto .

The Royal Exchange Bank, of New York,

in the sum of.....*Ten Thousand*dollars

to be paid unto the said.....*Royal Exchange Bank*

Whereas, the said*Henry Biron*.....has been duly appointed to the office of.....*Cashier*.....of the bank aforesaid, by the Directors thereof, and has signified his acceptance of the said appointment:

Now the condition of this Obligation is such, That if the said.....*Henry Biron*.....shall faithfully discharge the duties of his said office and all other duties that are, or may hereafter be, prescribed by the President and Directors, for and during the term for which he has been so elected, and for and during such term of time as he may continue therein, by any re-election or otherwise, then this obligation shall be void, but otherwise shall remain in full force.

It is, however, understood, that in case of the death of either of the above-named sureties, or in case either of the above-named sureties shall at any time give notice in writing, to the President or Directors, for the time being that he does not wish to be held any longer responsible on this obligation, thereupon both of the above-named sureties shall be discharged from liability on account of any default of the said principal which may occur after thirty days from and after the notice of such death, or of such wish to be discharged as aforesaid.

Signed and sealed in the presence of

Witnesses :	<i>Chas. Wood.</i> <i>William Brown.</i> <i>B. C. Ross.</i>	{ <i>Henry Biron</i>(SEAL) { <i>James Carr</i>(SEAL) { <i>Henry Johnson</i> (SEAL)	
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A Form of Surety Bond.

considered superior to the bonds granted by a guarantee company. Such a bond is really a testimonial, and the last one that is likely to be violated. The record shows that marvelously few employees have violated such bonds.

The guarantee companies look into a man's standing very thoroughly before taking the risk of becoming his surety. When an application is made three references are given and the company corresponds with the persons whose names are given as references and asks a great many very pointed questions. A young man with good social standing can secure bonds for five or ten thousand dollars by the payment of a small annual premium.

Use of Instruments of Credit.

All the wholesale transactions of business and a large part of the retail transactions are completed by the passing of instruments of credit or negotiable paper, as notes, drafts, checks, etc.; a part of the retail trade only is conducted by what is called cash, that is, actual bills and small change. It is the function of banks to deal with these transferable instruments legally called titles.

Banks deal to a very small extent in actual money. The notes, drafts, bills of exchange and bank deposits are representative of the property passing by title in money from the producers to the consumers. A small proportion, perhaps six or eight per cent., of these transactions is conducted by the use of actual bank or legal tender notes.

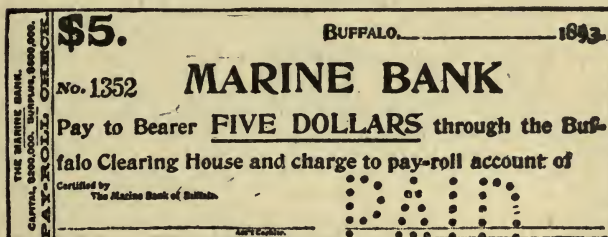
This trade in instruments of credit amounts to something like fifty billions of dollars yearly. The losses through mercantile failures rarely exceed one hundred millions a year, that is one dollar in every five hundred, or one-fifth of one per cent. of the gross amount of business.

Emergency Currency.

Some samples are given here of the emergency currency of 1893, which may be taken as an example of a period of financial stringency. Beginning in August and



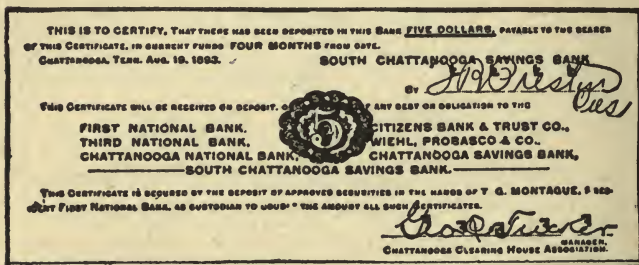
Emergency Currency of 1893.



within a single month a currency famine due to a variety of causes became general. The banks ceased to loan money, many of them fearing "a run." Interest reached 20, 50, and 100 per cent. The banks of one city refused to accept drafts on another. Some hundreds of banks were compelled to close their doors. The country had been doing ninety per cent of its business upon credit instruments—not actual money, and when these instruments were refused a financial panic was the result. Men pre-

ferred currency in hand to the best kind of credit account, and as a result the actual money was locked up in private vaults. Currency became so scarce that it had to be bought as merchandise at a heavy premium. Merchants were forced to send by express the actual bills to meet distant accounts and to pay the expenses of their families at the summer resorts. Checks were useless away from the banks upon which they were drawn. More than \$300,000,000 was withdrawn from the banks and hoarded by the owners.

This situation brought into local circulation several forms of currency—credit instruments—which were decidedly unique. The most common of these were the



A Clearing House Certificate.

emergency clearing-house certificates, their object being to extend indefinitely the brief term of mutual credit involved in all clearing-house settlements. They were in reality not used as currency, but their effect was to add their face value to the volume of currency in circulation, by releasing for use outside that which would otherwise have been reserved for clearing-house settlements. In each instance the use of the certificates was limited

strictly to settlement of mutual accounts between members of the particular clearing-house association issuing the certificate. The certificates were issued to banks upon securities which they furnished. Such certificates were also used during the financial depression of 1907-08.

Other devices of similar character were clearing-house due bills. These stated that a certain sum was due by a particular bank to some other bank or to the order of some individual and usually had the following additional wording: *This due bill is only good when signed by one and countersigned by another authorized person and is payable only in the exchanges through the clearing-house the day after issue.*

Another expedient favored in all parts of the country, was the sale by banks of certified checks against themselves for currency denominations, which when signed by the purchaser, were used by him as currency.

Most generally used of all, however, were pay checks in currency denominations, which in scores of manufacturing towns, were the only currency that was available for weekly payments and cash purchases by wage-earners.

In addition to these well-defined classes, there were others so varied that but a suggestion of them can be made—negotiable certificates of deposit; ninety-day and other short time paper in currency denominations; bond certificates; grain purchase notes; credit and corporation store orders; improvement fund orders; teachers' warrants; shingle scrip, etc. In every case where the associated banks of a section failed to supply the needed currency, individuals and corporations were compelled

to resort to extraordinary devices. This illegal banknote currency was accepted by the community, the financial conditions became normal again, and every credit instrument was made good in actual money.

Usury and Its Penalty.

The laws of some of the states for collecting more than the legal rate of interest are quite severe. National banks which collect more than the legal rate can only be proceeded against under the U. S. Interest Penalty Act, which provides that usury shall be punished by a forfeiture of twice the amount of interest paid, if action is commenced within two years of the time of such usurious practice, and that recovery can be had for the entire amount of interest paid at any time.

Bank Examinations.

National banks are examined once or twice a year by a United States Bank Examiner, who has authority from the Comptroller of the Currency, to whom his reports are made. These reports are seldom if ever seen by bank officers, and unless the examiner chooses to inform them that everything is right they are none the wiser.

When a national bank becomes embarrassed it is the business of the Bank Examiner to look thoroughly into its affairs and if necessary to close its doors.

The Cheque Bank.

This is an English institution with a branch in New York city and agencies in other cities. This bank sells to its customers a book of checks, each of which can be filled up only to a limited amount, as shown by printed and perforated notices appearing on the blank. For in-

stance for £100 one can buy a check-book containing fifty blank checks each good, when properly filled up, for £2. Each of these checks is really a certified check, only it is certified in advance of issue. Its payment is guaranteed by the bank rather than by the maker. Any of the thousand or more foreign banks which are agents for the Cheque Bank, sell these check-books and cash the checks when presented.

The Bank of England is a bankers' bank in the sense that it holds reserves of other banks, and makes those final payments of cash which close the general balance of transactions. The Cheque Bank is a bankers' bank in the opposite sense of making deposits in all other banks and employing them as agents.

Although the checks are issued for limited amounts they may be drawn for any amount within the maximum value. The amounts that may be short drawn, go toward the cost of a new check-book, or may be returned in cash. A form of claim for the short-drawn balances is provided on the cover of each check-book. Check-books are made up to suit the customers' convenience, and may be had either with checks all of the same denomination or of assorted values. Paid checks are returned when request for them is made.

All checks are issued *crossed* and payable to order. This requires the indorsement of the persons to whom the checks are paid, and the further security that checks can only be cleared by passing through the hands of a banker.

A peculiar feature of the Cheque Bank is that it entirely abstains from using, or even holding, the money

deposited in payment of check-books. This money is left to draw interest and to meet demands, in the hands of the bankers through whom the check-books are issued.

These checks are being used largely by travelers instead of letters of credit. The American and other express companies have a form of check which is very similar and which is used largely by Americans traveling in Europe. Some banks also issue "travelers' checks."

Bank Statements.

A bank statement is a balance-sheet of the bank's main ledger, and is sworn to by the cashier and attested by several of the directors. It is published at the time of its making in the local newspaper.

The resources in such a statement usually consist of items due from other financial institutions, bank bills, and specie on hand, bonds deposited with the United States treasurer; loans and discounts, consisting of discounted notes, drafts, etc., owned and held by the bank and which are maturing and being paid from day to day; real estate, etc.

The liabilities consist of the accounts due depositors and other banks; outstanding circulation of bank notes; undivided profits; surplus fund; original capital stock, etc.

Bank Debits and Credits.

The bank's *debits* for any day may consist of.

1. Deposits—the gross amount of money received on deposit.
2. Matured Loans—notes discounted that have been paid.

3. Interest—money received for interest from all sources.

4. Exchange—money received as exchange on collections.

5. Discount—the discounts on notes and other commercial paper.

6. U. S. Treasury—remittances received in payment for notes sent for redemption.

7. Circulation—new bank notes of the bank's own issue received from Comptroller of the Currency.

The bank's *credits* may consist of.

1. Checks—paid during the day.

2. Loans—gross amount of net proceeds of paper discounted.

3. Expense—running expenses of the bank

4. Interest—on deposits and rebates on prepaid discount paper.

5. Exchange—cost of collections made, charges on foreign paper, etc.

6. Dividends—paid stockholders.

7. U. S. Treasury—cash sent for new small legal tenders, etc.

8. Circulation—notes of the bank's own issue retired in any way.

Value of Paper Offered for Discount.

One of the most valuable parts of a banker's education is to learn whom to trust. Every bank should have a well-organized and thoroughly equipped credit department, in charge of some one who can be relied upon to investigate carefully all names referred to him by the officers.

A man who desires to borrow money from a bank should offer the same confidence that he would offer if he were going to a wholesale dealer to buy goods. The merchant has a commodity to sell and he looks for facts which will aid him in determining the line of credit to be granted. The banker has money to sell and he should be doubly sure of the responsibility of the party to whom he is selling it because the money does not belong to him. A banker has a right to expect the fullest confidence on the part of the borrower, and the borrower should furnish him with a complete and detailed statement of the condition of his affairs. It is safe to conclude that when a borrower refuses absolutely to give any information as to his financial condition, his credit is not in the most favorable condition.

Many of the banks have blank forms which they from time to time ask borrowers to fill out. These statements show in detail the assets and liabilities of the firm in question; they show the notes which are outstanding, the mortgages on real estate, and many other particulars including the personal or individual credit of members of the firm, if a partnership. The total net worth of the borrower should be first considered; then the character of his business, whether it is speculative or staple; then his record and standing in the community; then his business habits; then a consideration of whether he is in enterprise abreast with modern ideas and methods.

The paper offered for discount is of a variety of kinds. The larger proportion of it is from customers of the borrower who have extended their credit by paying their accounts in notes instead of in cash. Such paper is really, though having two names, very little better than

single-name paper, for it is not the maker's credit, but the payee's, which the bank usually considers. Many very small notes offered for discount usually indicate a very needy condition.

There are times when the character of the merchandise owned by the borrower should be considered. What would it bring under the hammer? Groceries and raw materials can usually be turned into cash at a forced sale at very small discount from current prices. Not so with hardware, glass, dry goods, boots and shoes, books, etc. Machinery and fixtures are not a bankable asset upon which to base credit.

The banker should also note his borrower's bills payable. Why did he give notes? Are they met promptly? Many houses prefer to sell their own paper in the open market and keep their banks open for accommodations when they are unable to secure outside credit.

The insurance carried should be considered, also the volume of business done. A large business on moderate capital, with long credits, will naturally have large liabilities, while a small business, with liberal capital, and short credits, should have small liabilities.

There are many firms which carry two or more bank accounts and others who sell their paper to out-of-town banks. In buying paper it is important to ascertain whether the firm is in the habit of taking up paper at one bank by floating a note at another.

A prominent banker classifies paper as to its discount value as follows:

1. Bankers' paper including bills of exchange.
2. Remittance paper—bills drawn by houses abroad on banks or correspondents in Europe.

3. Inland drawn paper—bills drawn by shippers of goods on the houses to whom the goods are shipped.

4. Brokers' paper—bills drawn by importers against commodities placed in brokers' hands for sale.

5. Trade paper—bills arising out of our manifold trades and industries.

6. Drafts with bills of lading attached.

7. Paper having personal indorsements.

8. Paper secured by collateral.

9. Individual—or one name paper.

Mercantile Agencies.

In large cities and towns, bankers and other business men should avail themselves of the advantages offered by mercantile agencies. These concerns report to their subscribers upon the credit of men in various lines of business. They gather their information from a variety of sources. This service has been very much improved of late years, and after making all due allowance for the inherent defects of the system, it is still a useful adjunct to the man who is giving credit. *Bradstreet's* and *Dun & Co.* are the two largest mercantile agencies in this country.

Savings Banks.

Savings banks have no special capital owned by stockholders. Their capital is the money received on deposit, which, of course, is the property of a great many people. Every depositor is an owner in the bank, and the profit is paid to depositors in interest. This capital is invested in choice securities. The corporation is simply the agent or trustee of the whole body of depositors, and works for their account and benefit and not for its own.

In most of the states, the savings banks are organized under State laws and are in a limited way under State supervision. Their chief purpose is to encourage the saving of money by the common people.

In some countries government savings banks have been established. In Canada almost every post office is a branch of the government post office savings bank.

Defalcations and Embezzlements.

An experienced banker offers the following suggestions to prevent defalcations and embezzlements through the manipulating of the bank's record books: Secure clerks of high character and integrity and have a proper system of accounts with a perfect system of checking everything. If possible keep accounts in duplicate. The balance ledger can be proved to a cent every day, and this should certainly be done. When practicable, it is better to have all differences investigated, and reported upon by some one who is not directly responsible.

A number of banks in the large cities have created the position of auditor of accounts, and it is one of his duties to report to the cashier direct upon all differences. This auditor reconciles accounts-current with out-of-town correspondents, balances and delivers all pass-books, and furnishes information to all depositors respecting their accounts. A great benefit is secured to a bank by the examination of one man's work by another.

Pass-books of active accounts should be written up once a month, and no pass-book should run longer than two months before being balanced. It should be a rule in every bank that no charge entry should be put through the books, except from a proper voucher, that is, a check

signed by a depositor, or a charge ticket made out and signed by an officer of the bank. The discount clerk and the collection clerk should not be the same person and neither of them should be the corresponding clerk. The monthly accounts-current rendered by a city correspondent should be reported upon promptly, and any disposition on the part of the bookkeeper to delay or neglect this matter should be corrected.

A very important requisite in modern banking is a system of thorough examination at irregular intervals. No teller, bookkeeper, or other clerk can suffer the slightest harm from having his cash and books examined and found correct. All notes held for collection should be accounted for, and balances due from other banks for collections should be verified. Special deposits of securities held for safe-keeping should be examined occasionally. The more complex the bookkeeping the easier it is to "cook" the accounts.

Commercial Crises.

Disturbances of the course of trade arise largely from the necessity of readjusting its conditions to the common standard and measure of value. The common standard of value is money, and the conditions of trade which require to be adjusted to it are the price of commodities, and contracts and obligations of all kinds. Contracts and obligations, agreements to pay money at a future time for something presently received, form the credit system of modern commerce. Inability to meet these obligations constitutes bankruptcy, and a great multiplicity of bankruptcies occurring simultaneously constitutes a commercial crisis.

If all persons were in the habit of paying immediately for everything received, there could be no debts, and consequently no failures nor panics. Those nations where the credit system has received its widest development, and where consequently the spirit of commercial adventure and speculation is most rife, are most exposed to the ravages of recurring periods of bankruptcy.

Money panics are usually preceded by years of active trade, high wages, multiplication of new enterprises, and general prosperity. Each period of abnormal and exciting prosperity is followed by a violent collapse, resulting in increased rates of interest, closing of factories, failures of banks and mercantile houses, and enforced idleness of large numbers of people, often resulting in extreme social disturbances. There is no remedy except in the concurrence of mankind to keep out of debt and to avoid all temptation to make gain without equivalent labor. This is impossible, however. Civilization is so interlaced with the credit system that it is idle to talk of abolishing it. The interests of mankind require that it should continue, even at the cost of its abuses.

There is, too, a desire for gain without labor which is legitimate. Nine-tenths of all the inventions and discoveries which have advanced mankind from the stone age to the age of electricity have had their origin in this desire. It may be, too, that an occasional crisis is a good thing, inasmuch as it shows commercial leaders by an object lesson the influences which tend to make trade successful or disastrous.

	<i>Chicago</i> _____ <i>19</i> _____ <i>No</i> _____ First National Bank & Chicago PAY TO THE ORDER OF _____ _____ \$ _____ _____ DOLLARS _____
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Form of Check.

<i>No</i> _____ _____ <i>19</i> _____ ORDER OF _____ _____ _____ _____ _____ \$ _____	
--	--

Check Stub.

CHAPTER VII.

THE CLEARING-HOUSE SYSTEM.

In large cities checks representing millions of dollars are deposited in the banks every day. The separate collection of these would be almost impossible, were it not for the clearing-house system.

Each large city has its clearing-house. It is an establishment formed by the banks themselves, and for their own convenience. The leading banks of a city connect themselves with the clearing-house of that city, and through other banks with the clearing-houses of other cities, particularly New York. Country banks connect themselves with one or more clearing-houses through city banks which do their business for them. The New York banks, largely through private bankers, branches of foreign banking houses, connect themselves with London. So that each bank in the world is connected indirectly with every other bank in the world, and in London is the final clearing-house of the world. The daily clearings in New York in 1909 averaged \$326,505,468 (for 51 banks) and the average daily balances paid in money amounted to \$13,797,644.

Usually once a week the banks of a city make to their clearing-house a report based on daily balances, of their condition.

Check Collections.

Each bank in a city receives on deposit, daily, checks on other banks. Instead of sending these by messenger

to the other banks they are sent to the clearing-house at a fixed hour each day—in some cities twice a day.

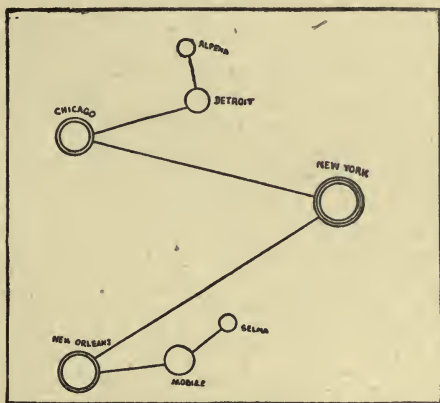
The banks of a clearing-house city are numbered. These numbers are seen stamped upon checks which the bank handles in the process of collection. Bank A may for instance carry checks amounting to \$200,000 to the clearing-house for collection. Banks C, D, E and F may have checks on A amounting to \$189,240, which they send to the clearing-house for collection. This would show a balance of \$10,760 in A's favor, which is paid to bank A by the clearing-house in clearing-house certificates or due bills. If the balance were against A, the amount due would have to be made up within the hour limit fixed by the clearing-house regulations.

Suppose, for illustration, that Brown of Lynn owes Smith of Media \$25, and pays the amount by a check on a Lynn bank. This check will go by mail from Lynn to Media. Smith will deposit it in a Media bank. The Media bank will send it with other checks to its Philadelphia *correspondent*, say the Penn National. The Penn National will send it with other checks to its New York *correspondent*, say the Chemical National. The Chemical will forward it with other checks to its Boston *correspondent*, say the First National. Now the First National of Boston may not be the Boston *correspondent* of the Lynn bank. It therefore sends the check for collection through the Boston clearing-house to the bank which does the Boston business for the particular Lynn bank upon which the check is drawn, say the Second National. The Second National sends the check to Lynn, where it is charged up against Brown's account. This

system of collections is almost as perfect as is the post-office system of carrying registered mail.

The Wanderings of Checks.

Under old-fashioned methods, each bank was in the habit of selecting its collection agents, sending them by mail their collection paper, charging their customers very substantial collection rates and passing the same to their credit when collected. Nowadays the country trader, no matter where he is located, sends his check on a



local bank to pay his account in a distant city, and the receiver of the check expects his bank to collect the amount of the check free of expense, and to give him full credit for it the day it is deposited.

Suppose for instance that a merchant of Selma, Ala., sends his check on a Selma bank by mail to pay a bill in Alpena, Mich. The Alpena merchant deposits it in his local bank, and this local bank sends it to its Detroit *cor-*

respondent; that is, deposits it in the Detroit bank where its account is kept. The Detroit bank sends the check to its Chicago *correspondent*. The Chicago bank may have no connection with a Southern city. It sends the check to its New York *correspondent*. The New York bank forwards the check to New Orleans, where it may pass through the clearing-house to some other New Orleans bank which forwards it to its *correspondent* in Mobile. The Mobile bank sends the check to Selma, and has it charged up to the account of the man who issued it.

Now all these banks and clearing-houses through which the check passes, stamp their indorsement and other information on the back of the check, so that the check itself bears a complete record of its travels.

Millions of dollars are collected by banks daily in this way, and generally without expense to their customers. It is estimated that these collections cost the New York city banks more than two million dollars a year in loss of interest while the checks are *en route*. Fifteen thousand collection letters are sent out every day by the banks of New York City alone. There have been spasmodic attempts in some cities to make a charge for the collection of out-of-town checks, but such attempts are unpopular among business men.

Clearing-house Management.

The bank clerks who attend to the clearing-house business must be experts in their special work. The slightest error on the part of one clerk may prolong indefinitely the entire settlement. As a check against error very severe rules are established. The following are samples from the by-laws of a large clearing-house:

"1. For disorderly conduct of any clerk, or other officer, at the clearing-house, or disregard of the manager's rules and instructions, for each offense, \$4.00.

"2. For any officer failing to attend punctually at the hour for making the exchanges, \$4.00.

"3. Debtor banks, failing to appear to pay their balances before a quarter past 12 o'clock, \$3.00.

"4. Any error in the credit ticket (that is the amount brought), \$2.00.

"5. Errors in making the balance ticket (that is, the amount received) entries, \$2.00.

"6. Failing to deliver check tickets before half-past ten o'clock, \$1.00.

"7. All other errors, \$2.00.

"Any clerk, or other officer, who shall repeatedly and perseveringly disobey the orders or instructions of the manager, shall, with the approbation of the clearing-house committee, be expelled, and not readmitted without the written consent of the committee. Thirty minutes will be allowed for the morning business settlement, and for each additional fifteen minutes' detention, \$2 will be added to the fine under No. 3."

The following selections from the general rules of the same clearing-house will give the reader some idea of the exacting character of clearing-house regulations:

"Errors in the exchanges and claims arising from the return of checks or other cause are to be adjusted directly between the banks which are parties therein, and not through the clearing-house.

"Whenever checks which are not good are sent through the clearing-house they shall be returned by the banks receiving the same to the banks from which they

were received as soon as it shall be found that said checks are not good; and in no case shall they be retained after one o'clock.

"The manager shall immediately report to the clearing-house committee any apparent irregularity in the dealings of any bank belonging to the association that comes to his notice, and receive the instructions of the committee in regard thereto.

"The committee shall have power to remove the manager or any of the clerks, whenever, in their opinion, the interests of the association shall require it.

"The hour for making the exchanges at the clearing-house shall be ten o'clock A. M. each day. At a quarter past twelve o'clock, noon, the debtor banks shall pay to the manager, at the clearing-house, the balances due from them respectively either in coin or in such other currency as the laws of the United States shall require, or in such certificates as shall be authorized by the clearing-house association, excepting sums less than one thousand dollars, which may be paid in bills of the debtor bank.

"At half-past one o'clock P. M. the creditor banks shall receive from the manager, at the same place the balances due to them respectively; provided all the balances due from the debtor banks shall then have been paid to him.

"Should any bank fail to pay the balance due from it at the proper hour the amount of such balance shall be immediately furnished to the clearing-house by the several other banks in proportion to their respective balances against the defaulting bank resulting from the exchanges of that day."

Foreign Clearing-houses.

England has three bank clearing-houses and France one. The clearing principle is used in England to adjust the complicated accounts of the through traffic of connecting railroads, and to simplify the fortnightly deliveries of stock on the London Stock Exchange. Every clearing-house bank in London, and the clearing-house itself, keep accounts with the Bank of England, and differences are settled by transfers from one account to another.

London originated the clearing-house. It was formed spontaneously by the clerks of the London private bankers, who, to save themselves the trouble of going about to each bank, got into the habit of meeting in a central room to settle their mutual claims. A similar practice arose among French merchants, in old times, of making their bills payable at the great annual fair in Lyons, where they met to balance their debts, and pay the differences.

If gold were to be used instead of the clearing-house machinery in either New York or London, the weight to be moved every day over long distances would exceed 200 tons. The clearing-house establishes a fellowship among banks that has already proved in times of money panics of the greatest service to themselves and the community.

CHAPTER VIII.

DEPOSITS AND DEPOSITORS.

When you enter a bank to open an account, inquire for the cashier, and, if convenient, take with you some one who can introduce you and identify you as the person you profess to be.

If you go alone, do not feel hurt if a number of questions are asked you. While you may be perfectly honest, a large number of people make their living by being sharp, and, besides, it is necessary to establish those confidential relations which ought to exist in all financial transactions, so that the cashier may know something more about you than he could ascertain by merely looking at you, and taking your name in a book.

The cashier will have you place your signature in a book. Your name as written in this book should be the same in style as you intend to place on your checks.

If necessary, the cashier or some officer of the bank, will show you how to make out a deposit slip. He will give you also a small bank book, in which you will be credited with the amount of money which you deposit. Each time you deposit money you will be required to make out a deposit slip. The banks furnish the printed blanks free.

Under the word *checks* on the blank you write the names of the banks upon which the checks, if any, which you are depositing, are drawn. If a check is on a distant city, the name of the city should be given.

Your bank book is in reality your only receipt from the bank for the money you deposit. When you deposit money hand it to the receiving teller, and when you wish to draw money present your check to the paying teller.

DEPOSITED IN		
The Union Trust Company,		
715, 717 & 719 Chestnut St., Philadelphia		
By <i>Penny Wise & Co</i>		
<i>Mar 12, 1915</i>		
	DOLLARS	CTS
Bank Notes,	240	-
Small Notes, 1's and 2's,	37	-
Coin,	5	-
Check, (ENTER SEPARATELY) <small>If to the city, name of bank; if out of the city, name of place where payable.</small>		
<i>Genl. Bal.</i>	42	80
<i>West Chester</i>	33	27
<i>Chemical, N.Y.</i>	3	42
<i>Am. Ex. Order</i>	5	33
<i>P.O. Money Order</i>	10	-
Total,	<i>\$</i> 376	82

Deposit Slip.

When you wish to have your bank book balanced hand it to the receiving teller. This is usually done on the first of each month. The paid or canceled checks are returned to you in a day or two when you get your bank book back. These should all be filed in an orderly way. They serve as vouchers and may be useful in legal complications.

Hints for Depositors.

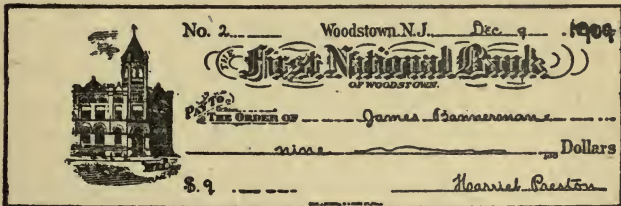
Do not wait until you get to the bank to count your money, or to indorse your checks and arrange your deposit. This should be done before you come to the bank,

or at least, before you present yourself at the receiving teller's window. Be sure that you have the figures correct. Place the bills all one way, right side up. Separate your gold and silver, and sort the silver by denominations.

Do not deposit your dimes, nickels, and pennies until you have a certain amount of them, say five dollars of each; then put them in a package, with the amount and your name marked on it, and leave for the teller to count at his leisure, with the understanding that if short or over the proper correction will be made.

Bank Checks.

A check is an order for money, drawn by one who has funds in the bank, payable on demand. It is in reality a sight draft on the bank. Banks provide blank checks for



A Poorly Written Check.

their customers, and it is a very simple matter to fill them out properly. In writing in the amount begin at the extreme left of the line.

The illustration given here shows a poorly written check and one which could be very easily raised. A fraudulent receiver could, for instance, write "seventy" before the *nine* and "7" before the figure "9," and in this way raise the check from \$9 to \$79. If this were done

and the check cashed, the maker, and not the bank would become responsible for the loss. 'You cannot hold the bank responsible for your carelessness. A check was raised from \$100 to \$190 by the writing "*and ninety*" after the words "one hundred." One of the ciphers in the figures was easily changed to a "9" by adding a tail to it. It is wise to draw a running line————— after the amount in words, thus preventing any additional writing.'

Checks should be dated, but the absence of a date does not warrant a bank in refusing to cash the check. Notes made and executed on Sunday are invalid, but a check so dated is good.

The signature should be in your usual style familiar to the paying teller.

A check is a draft or order on a bank, and need not necessarily be written in the prescribed form. Such an order written on a sheet of note-paper with a lead pencil might be in every way a legally good check.

If it is necessary at any time to write a check for a fractional part of a dollar, as 75 cts., write "*Seventy-five Cents,*" and draw your pen through the printed word *Dollars*.

There hangs in the office of the Pacific Mills, Boston, the canceled check of the United States for *one cent*; and on the walls of the Bank of Commerce, New York City, hangs a handsomely framed check for \$14,000,000, signed by the well-known banking house of Kidder, Peabody & Co.

Usually checks should be drawn "to order." The words, "Pay to the order of John Brown" mean that the

money is to be paid to John Brown or to any person he *orders* it paid to. If a check is drawn "Pay to Bearer," any person, that is the bearer, can collect it. The paying teller may ask the person cashing the check to write his name on the back simply to have it for reference.

In writing and signing checks use good black ink and let the copy dry a little before a blotter is used.

Safety devices to prevent the fraudulent alteration of checks are of almost endless variety, but there has not been a preventive against forgery and alterations yet invented which has not been successfully overcome by swindlers. A machine for punching out the figures is in common use, but the swindler has successfully filled in the holes with paper pulp and punched other figures to suit his purposes.

The method adopted by the express companies and by the post office department in its money orders is perhaps the best plan yet offered to prevent the raising of the amount of a check or order. A glance at an express money order will illustrate this point. Notice the printed line on the left end—"Not payable for more than One Dollar" or "Five Dollars," as the case may be. To raise such an order it would be necessary to add to the length of the paper, which of course would be impossible.

The most experienced bankers favor a plain black and white check, drawn upon clear white paper with good strong black ink.

There are often presented to banks for payment, checks in which the figures in the margin do not correspond with the amounts stated in writing in the body of the checks. The law governing cases of this sort provides distinctly that the amount in writing shall be con-

sidered correct. If the amount of money involved were large, the paying teller would be justified in withholding payment until he satisfied himself that the amount in writing was what the maker really intended the check to call for.

Identification.

The banks of the United States make it a rule not to cash a check that is drawn payable to order, unless the person presenting the check is known at the bank—or unless he satisfies the paying teller that he is really the person to whom the money is to be paid. It must be remembered, however, that a check drawn to order and then indorsed in blank by the payee is really payable to bearer, and if the paying teller is satisfied that the payee's signature is genuine he will not likely hesitate to cash the check. In England, all checks apparently properly indorsed are paid without identification.

In drawing a check in favor of a person not likely to be well-known in banking circles, write his address or his business after his name on the face of the check. For instance, if you should send a check to John Smith, Boston, it may possibly fall into the hands of the wrong John Smith; but if you write the check in favor of "John Smith, 849 Tremont St., Boston," it is more than likely that the right person will collect it.

If you wish to get a check cashed where you are unknown, and it is not convenient for a friend who has an account at the bank to go with you for the purpose of identification, ask him to place his signature on the back of your check, and you will not likely have trouble in getting it cashed. By placing his signature on the back

of the check he guarantees the bank against loss. A bank is responsible for the signatures of its depositors, but it cannot be supposed to know the signatures of indorsers. The reliable identifier is in reality the person who is responsible.

A Banker's Hints.

Do not draw a check unless you have the money on deposit or in your possession to deposit.

Do not test the generosity of your bank by presenting, or allowing to be presented, your check for a larger sum than your balance.

Do not draw a check and send it to a person out of the city expecting to make good the amount before it gets back.

Do not give your check to a friend with the condition that he is not to use it until a certain time.

Do not send ignorant and stupid messengers to the bank to transact your business.

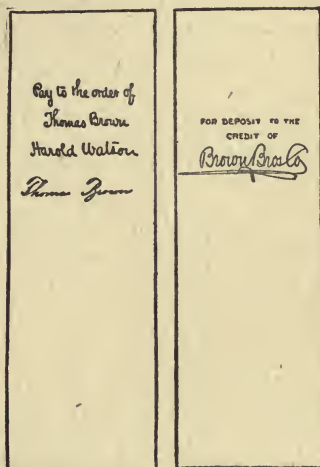
Check Indorsements.

In indorsing checks note the following points:

1. Write across the back—not lengthwise.
2. If your indorsement is the first, write it an inch or two from the top of the back; if it is not the first indorsement write immediately under the last indorsement.
3. Don't indorse wrong end up; the top of the back is the left end of the face.
4. Write your name as you are accustomed to write it, no matter how it is written on the face. There is a modern tendency to make the indorsement agree in all respects with the name of the payee as written on the face, but the practice of changing one's signature to con-

form with the whim, the carelessness or the error of another, is not to be recommended.

5. If you are depositing the check write or stamp "For Deposit" over your signature. This is hardly necessary if you are taking the check yourself to the bank. A check with a simple or blank indorsement on the back is payable to bearer, and if lost, the finder might succeed



in collecting it, but if the words "For deposit" appear over the name, the bank officials understand that the check is intended to be deposited, and they will not cash it.

6. If you wish to make the check payable to some particular person by indorsing, write "Pay to (NAME) or order," and under this write your own name as you are accustomed to sign it.

7. Do not carry around indorsed checks loosely. Such checks are payable to bearer, and may be collected by any one.

8. If you receive a check which has been transferred to you by a *blank* indorsement, and you wish to hold it a day or two, write over the indorsement the words "*Pay to the order of* (YOURSELF)"

This is allowable legally. The check cannot be collected until you indorse it.

9. An authorized stamped indorsement is as good as a written one. Whether such indorsements are accepted or not depends upon the regulations of the clearing-house in the particular city in which they are offered for deposit. In New York City and Chicago the use of stamped indorsements is universal. The written indorsement is safer for transmission of out-of-town collections.

10. If you are indorsing for a company, or society, or corporation, write first the name of the company and then your own name followed by the word "*Treas.*"

11. If you have power-of-attorney to indorse for some particular person, write his name followed by your own, followed by the word "*Attorney*" or "*Atty*" as it is usually written.

12. Where checks are sent out by the receiving (deposit) bank to all parts of the country for collection, it is customary for the bank to stamp upon the back of the check the words "INDORSEMENT GUARANTEED." Sometimes a check reaches a bank through responsible parties, who are not its payees, without bearing the payee's indorsement. The bank may decide to pay without demanding the absent indorsement, since such a demand

would cause considerable delay and trouble, if the presenter or the presentee of the check guarantees the absence of the indorsement. This he does by writing "*Absence of indorsement guaranteed,*" with his signature, on the back of the check. Of course, this is practically a guarantee against loss and trouble to the banker, which might result from the absence of the indorsement. The banks of some cities will not accept such guarantee. It is sometimes permissible to indorse the payee's name "by (YOUR OWN NAME)" This may be done by a junior member of a concern when the person authorized to indorse checks is absent, and the checks are deposited and not cashed. If a check lacks the indorsement of the original payee, it may be wise, if convenient to do so, to get it certified before sending it back for such indorsement.

13. Write your check payable to the order of some person, but don't write "Pay to the order of *James Gordon Bennett, for subscription to Herald for 1912.*" Such information on a paid check may serve some purpose of yours, but it is not good business. Descriptive and qualifying matter is quite proper in the letter accompanying the check, and if the letter has been copied, it is just as legally valuable.

14. Do not write any unnecessary information on the back of your check. A story is told of a woman who received a check from her husband, and when cashing it wrote "Your loving wife" above her name on the back.

Cashing Your Own Check.

If you wish to draw money from your own account, the most approved form of a check is written "Pay to the

order of *Cash*." This differs from a check drawn to "*Bearer*." The paying teller expects to see you yourself or some one well-known to him as your representative, when you write "*Cash*." If you write "Pay to the order of (YOUR OWN NAME)" you will be required to indorse your own check before you can get it cashed.

Checks for Special Purposes.

If you wish to draw a check to pay a note, write "Pay to the order of *Bills Payable*." If you wish to write a check to draw money for wages, write "Pay to the order of *Pay Roll*." If you wish to write a check to pay a draft which you are buying, write "Pay to the order of *N. Y. Draft and Exchange*," or whatever the circumstances may call for.

No Funds.

If you have deposited a check and it is returned through your bank marked "*No Funds*," it signifies that the check is worthless and that the person upon whose account it was drawn has no funds to meet it. Your bank will charge the amount to your account.

The best thing to do in such a case is to hold the *protested* check as evidence of the debt and write the person who sent it to you giving particulars and asking for an explanation. There is no advantage in having the check protested unless it has an indorser other than yourself. One of the bankers' journals gives an instance of a man who had a check for \$900, which he took to get cashed. He learned that the drawer had only \$700 on deposit, and knowing that he (the drawer) was embarrassed

financially, the man deposited to the drawer's credit \$200 of his own money, and then presented his \$900 check and had it cashed.

Stopping Payment.

If you wish to stop the payment of a check which you have issued you should notify the bank at once, giving full particulars of the check.

Canceling Checks.

Banks have a custom, after paying and charging checks, of canceling them by punching or by making some cut through their face. These canceled checks are returned to the makers at the end of each month.

Checks Presented After Death.

As a general rule banks are expected to stop the payment of a check the signer of which has died before its presentation. This is not always possible, for the reason that information as to the death of a customer may not reach the bank for days, so that in reality banks are every day paying checks of men who are dead. In Massachusetts, checks are good for ten days after the death of the signer.

Checks Should Be Numbered.

Checks should be numbered so that each can be accounted for. The numbers are for your convenience and not for the convenience of the bank. It is important that your check-book be correctly kept, so that you can tell at any time how much money you have in the bank.

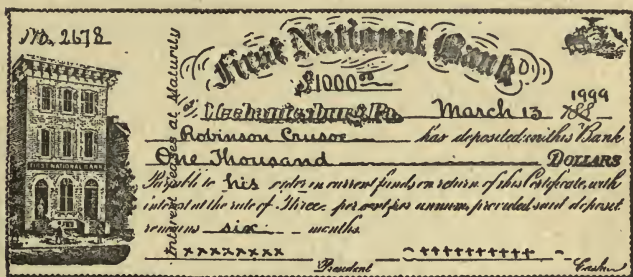
At the end of each month your small bank-book should be left at the bank so that the bookkeeper may balance it. It may happen that your bank-book will show a larger balance than your check-book. You will understand by

this, if both have been correctly kept, that there are checks outstanding which have not yet been presented at your bank for payment. You can find out which these are by checking over the paid checks that have been returned to you with your bank-book. The unpaid checks may be presented at any time, so that your actual balance is that shown by your check-book.

Checks should be presented for payment as soon after date as possible.

Certificate of Deposit.

If you deposit money temporarily in a bank for safe keeping you will receive a receipt therefor. This receipt



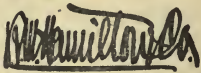
Certificate of Deposit.

is usually called a certificate of deposit. See illustration. It often occurs that such certificate is used instead of a bank draft, in the payment of distant bills. Interest is allowed under certain conditions. It is practically a bank's check on itself. In issuing certificates of deposits to strangers the bank should take their signatures upon the margin of the certificate book, so that, when the certificates come home for redemption, the indorsement may be compared with this original signature, if it seems

necessary. Of course every properly managed bank has a ledger account of certificates of deposits issued, which is a full record of the amounts and names of all certificates issued, together with their dates and numbers. Returning certificates can be compared with this record as they are presented for payment through clearing-houses and over the counter.

Certified Checks.

If you wish to use your check to pay a note due at some other bank, or in buying real estate, or stocks, or bonds, you may find it necessary to get the check certified. This is done by an officer of the bank who writes or stamps across the face of the check the words "*Certified*" or "*Good when properly indorsed,*" and signs his name. (See illustration.) The amount will immediately be de-

EQUITABLE BUILDING.	\$500 ⁰⁰ \$500	WHEN PROPERLY ENDORSED. PAY THROUGH THE BOSTON CLEARING-HOUSE. DEC 15 1899 The Lincoln National Bank, Boston, Mass.	Boston, <u>Dec 15</u> 1899
	LINCOLN NATIONAL BANK,		
	Pay to the order of <u>A. Evans</u>		
	<u>Five hundred</u>		Dollars.
No. <u>409</u>			

A Certified Check.

ducted from your account, and the bank, by guaranteeing your check, becomes responsible for its payment. Banks will usually certify any check drawn upon them if the depositor has the amount called for to his credit, no matter who presents the check. If you should get a check

certified and then not use it, deposit it in your bank, otherwise your account will be short the amount for which it is drawn. In Canada, all checks are presented to the "ledger keeper" for certification before being presented to the paying teller.

Bank Drafts.

Your bank check is really your sight draft on your bank. Of course it differs from an ordinary commercial draft, not only in its wording, but in its purpose. A check is used for paying money to a creditor, while a draft is used as a means of collecting money from a debtor. The bank is obliged to pay your check if it has funds of yours sufficient to meet it, while the person upon whom your draft is drawn may or may not honor it at his pleasure.

Banks keep money on deposit in one or more other banks located in some of the commercial centers. Nearly all large banks keep money on deposit with one or more of the New York City banks. They call these banks their New York *correspondents*.

A bank draft is simply the bank's check, drawing on its deposit with some other bank. Banks sell these checks to their customers. Merchants make large use of these drafts, or cashier's checks as they are sometimes called, in making remittances from one part of the country to another. These drafts or checks pass as cash anywhere within a reasonable distance of the money center upon which they are drawn. Banker's *drafts on New York* would, under ordinary financial conditions, be considered cash anywhere in the United States.

A draft on a foreign bank is commonly called a *bill of exchange*. Bills of exchange are usually drawn in duplicate, one of which is forwarded and the other retained. They are so worded that when the original is paid the duplicate becomes void. They are drawn in the currency of the country where they are made payable. These drafts are used to pay accounts in foreign countries just as drafts on New York are used to pay indebtedness at home.

“Kiting” Checks.

Don't exchange checks to get twenty-four hours' credit. This is often done. The banks call it “kiting.”

If your bank finds that kiting is included in your business methods, do not be surprised if you are asked to withdraw your account. Banks cannot afford to lend you money even for twenty-four hours without interest or security.

To illustrate, suppose it is 12 o'clock noon—after the bank-clearing at the clearing-house. A is short and needs \$500. He gives B his check for \$500 and takes B's check for \$500. B's check may not be any better than A's but A deposits it and has ample time before three o'clock to draw on the deposit and use some of the money. B may do the same with A's check. Other checks or cash are deposited in the morning before clearing-house hours so that the \$500 checks may be met when they come in for collection. A may accomplish the same end by having accounts in two banks and by depositing a check on the one in the other.

Forged Checks.

Who is liable when a forged check has been paid? This question is often asked, and the answer varies with circumstances. Ordinarily the bank must stand the loss, but if the fraud is the result of carelessness on the part of the person whose name is forged, the bank is not liable. Business men should not only make use of the most approved methods of protecting their checks but they should take every possible precaution to prevent improper use of the blank forms by keeping them in places inaccessible to anyone but those of their own counting-rooms who are authorized to write up their checks.

Signatures.

In the course of business we often come across very queer specimens of writing and eccentricities in signatures. A New York Insurance Company's Vice-President has a signature, as it appears on the policies issued by his company, which is fourteen inches one way and nine inches the other. In our illustration the signature at the top on the left is that of F. S. Watte, teller of an Iowa bank. Immediately under this name is that of John Mohr, Jr., cashier of a bank in Indiana. Under Mohr's signature is that of Tom Randolph, president of a bank in Texas. Directly under Randolph's signature we find a cross-etching which represents the treasurer of a manufacturing company in Connecticut—Hugh Harbison. It ranks high as a curiosity in penmanship. The writing at the upper right-hand corner is that of Carmon Parse, cashier of a bank in New Jersey. The writing in the lower right-hand corner filled the entire page of a letter sheet. The name is that of Jas. V. D. Westfall.

Suggestions to Bank Depositors.

Don't exaggerate your financial condition. The bank has a history of it on its books.

Do not borrow money to swell your deposits.

Don't ask for special favors in the way of credit; good security is all the bank asks. Your intercourse with bank officers should be candid and courteous.

Make your deposit as early in the day as possible. Never exchange checks to make large deposits. Never make deposits without your bank book. Avoid unnecessary conversation with the clerks.

Make it an invariable rule to give checks only out of your own check book. Never give out checks dated ahead. Always consider a check paid when you give it out and mark the amount from your balance.

Let all your dealings be strictly honorable.

No. _____ \$ _____

CHICAGO, ILL., _____ 19 _____

_____ after date, _____ promise to pay to the order of

THE FIRST NATIONAL BANK OF CHICAGO.

_____ DOLLARS,

With interest at Seven per cent per annum after due, at the office of said Bank. Value received. In case of the insolvency of the undersigned any indebtedness due from the legal holder hereof to the undersigned may be appropriated and applied hereon at any time, as well before as after the maturity hereof.

Demand Note.

18 34

NAME OF PURCHASER

THE
FIRST NATIONAL BANK
OF CHICAGO

ADDRESS

ISSUE DRAFT ON

19

ORDER OF

Application for Draft.

CHAPTER IX.

NOTES AND DRAFTS.

Promissory Notes.—A promissory note is a written promise to pay a specified sum of money. At the time of the note's issue, that is, when signed and delivered, two parties are connected with it: the *maker* and the *payee*. The maker is the person who signs or promises to pay the note, and the payee is the person to whom or to whose order the note is made payable.

Negotiable in a commercial sense means *transferable* and a negotiable note is a note which can be transferred from one person to another. A note to be made negotiable must contain the word *order* or the word *bearer*, that is, it must be payable either *to bearer* or *to the order* of the payee.

A non-negotiable note is payable to a particular person *only*.

A note may be written on any kind of paper in ink or in pencil.

Date of a Note.

The date of a note is a matter of the first importance. Some bankers and business men now consider it better to draw notes and time drafts payable at a certain fixed time; as, "*I promise to pay on the 10th of March, 1912.*" The common custom, however, is to make notes payable a certain number of days or months after date.

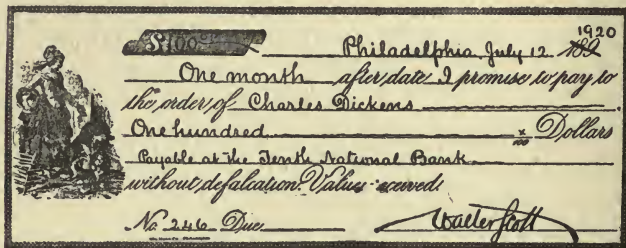
A note made and issued on Sunday is void.

The day of maturity is the day on which a note becomes legally due. In most of the states a note is not legally due until three days, called *days of grace*, after the expiration of the time specified in the note.

The words, "*without defalcation*" are inserted in Pennsylvania notes.

"Value Received."

These words are not legally necessary, although they usually appear on ordinary promissory notes. Thousands of good notes made without any value consideration are handled daily:



A Promissory Note.

The *promise to pay* of a negotiable note must be unconditional. It cannot be made to depend upon any contingency whatever. A note made payable in anything but money is simply a form of contract and is not a negotiable instrument.

Accommodation Paper.

Notes and acceptances that are made in settlement of genuine business transactions come under the head of regular, legitimate business paper. An accommodation note, or acceptance, is one which is signed, or indorsed, or accepted, simply as an accommodation, and not in settle-

ment of an account or in payment of an indebtedness.

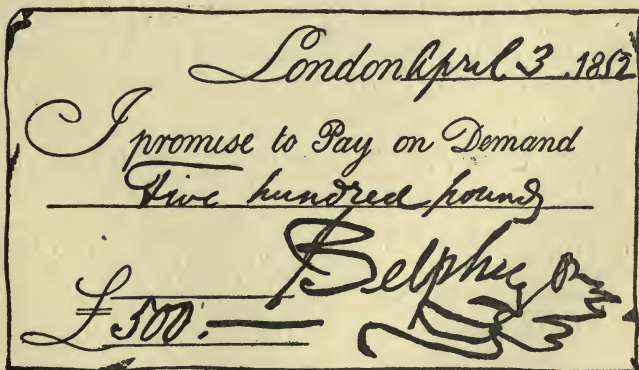
With banks, accommodation paper has a deservedly hard reputation. However, there are all grades and shades of accommodation paper, though it represents no actual business transaction between the parties to it, and rests upon no other foundation than that of mutual agreement.

No contract is good without a consideration, but this is only true between the original parties to a note. The third party or innocent receiver, or holder of a note, has a good title, and can recover its value, even though it was originally given without valuable consideration.

An innocent holder of a note which had been originally lost or stolen, has a good title to it, if he received it for value.

Interest Notes.

A note does not draw interest until after maturity, unless the words *with interest* appear on the face. Notes



An English Note of Hand.

draw interest after maturity and until paid, at the legal rate.

Indorser of a Note.

An indorser of a note is any person who writes his name on the back of it, and by so doing guarantees its payment. Indorsements on notes are usually made in blank, that is, without the words "Pay to the order of." The receiver of the note is then free to indorse it or not at his pleasure if he wishes to transfer it.

The indorser is liable for its payment if the maker fails to meet it. If an indorser should be compelled to pay a note he has a good claim against the maker, and against each indorser whose name appears above his own.

An indorser to whose order a note is drawn or indorsed, can transfer it without becoming liable for its payment by writing the words "*without recourse*" before or after his name on the back.

A person who receives a promissory note in good faith for fair value before the day of maturity, takes it free from all defects of title and from all claims that might be set up against any preceding holder. This is not true of notes transferred after maturity.

Presentation for Payment.

A note should be presented on the exact day of maturity. Notes made payable at a bank or at any other place, must be presented for payment at the place named. When no place is specified the note is payable at the maker's place of business or at his residence.

The note must not be presented before or after maturity but upon the exact day of maturity if the indorsers are to be held liable for its non-payment.

Protest.

When a note is presented for payment at maturity and is not paid, it is usually *protested*, that is, a notary public makes a formal statement that the note was presented for payment and payment was refused. Notice of such protest is sent to the maker and to each indorser.

The bank should never hand to its notary any paper for protest until it has made sure that its non-payment has not been brought about by some error or misunderstanding. Quite often, even though the paper has been made payable at a bank, the notary sends a messenger with the note to the maker to make a formal demand for payment.

In taking in collection paper, banks should obtain clear instructions from its owners as to whether or not it should be protested in case of non-payment. It by no means follows that a formal protest is not desired because the paper bears no indorsements. Many banks make it a rule to protest all unpaid paper unless otherwise ordered.

Date of Maturity.

In finding the date of maturity it is important to remember that when a note is drawn *days after date* the actual days must be counted, and when drawn *months after date* the time is reckoned by months.

Payment on a Note.

If a payment is made to apply on a note, such payment should always be indorsed on the back of the note. Such indorsement requires no signature. The usual form is to give the date and write "Received on within note," stating the amount. An ordinary separate receipt is not

sufficient. Each amount indorsed on the back reduces the face value.

A Joint Note.

A note having two or more makers is called a *joint note*. If written "We jointly and severally promise to pay," either maker is individually liable for the whole amount if the other does not pay his share; if written, "We promise to pay," each is liable for his one-half.

A note written "I promise to pay" and signed by two or more persons is a joint individual note.

Signature to a Note.

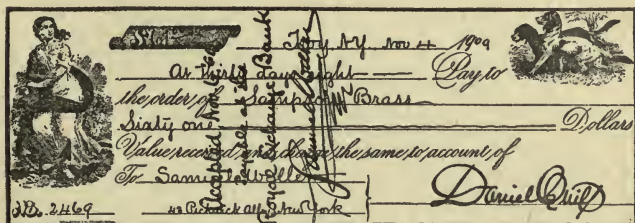
The maker's signature to a note must appear in some form upon some part of the paper. It may be affixed by himself or his authorized agent, and it may be the full name or the initials only.

Commercial Drafts.

A commercial draft is really a letter from one person to another requesting that a certain sum of money be paid to the person who calls, or to the bank or firm for whom he is acting. Commercial usages recognize a particular form in which this letter is written and the address of the person for whom it is intended is usually written at the lower left-hand corner instead of on an envelope.

Commercial drafts are sent through the banks instead of directly through the mail. For instance, if A of Boston owes B of New York \$100, B may draw on A for the amount. He may deposit the draft in a New York bank to be forwarded or he may mail it himself to a Boston

bank for collection. When the draft reaches the Boston bank, a messenger will carry it to A. If it is a *sight draft*, that is, if B wants the money paid at sight, immediately, A may give the money to the messenger and take the draft as his receipt. If it is a *time draft*, that is, if B gives A time, a certain number of days in which to pay the draft, A *accepts* it. He does this by writing the word *accepted* with the date and his signature across the face of the draft. He then returns the draft to the



An Accepted Draft.

messenger and it is returned to B. An accepted draft is really a promissory note, though it is often called an *acceptance*. When a man pays or accepts a draft he is said to *honor* it. In this instance A is not obliged either to pay or to accept the draft. It is not binding on him any more than a letter would be. But, if he refuses to honor legitimate drafts, it may injure his credit with the banks and other business houses.

Collections by Draft.

It is a very common thing to collect distant accounts by means of commercial drafts. A debtor is more likely to meet a draft than he is to reply to a letter and inclose his check. It is really more convenient and safer too, for

there is some risk in sending personal checks through the mails. There are some houses that make all their payments by check, while there are others that prefer to have their creditors at a distance draw on them for the amounts due.

If a business man who is accustomed to honor drafts continues for a period to dishonor them, the banks through which the drafts pass conclude that he is unable to meet his payments. Circumstances of this character have a tendency to injure one's credit.

The messenger from a bank who presents a sight draft is not authorized to accept a check in payment, but the person upon whom the draft is drawn may, if he chooses, write across the face, "*Accepted, July —, 19—, payable at First National Bank,*" and under this write his name. Such a draft is then really a check—an order on his bank to pay the amount due for him, and the particulars must be entered in the check-book just the same as though an actual check had been issued.

Some houses deposit their drafts for collection in their home banks, while others have a custom of sending them direct to some bank in or near the place where the debtor resides. If the place is a very small one the collection may be made through one of the express companies.

Draft Notices.

When goods are sold for distinct periods of credit and it is generally understood that maturing accounts are subject to sight drafts, there really should be no need of notifying the debtor in advance of drawing. Some houses, however, make a general custom of sending noti-

ces ten days in advance stating that drafts will be drawn if check is not received in the meantime. These notices may be often seen printed at the foot of statements sent out on the first of the month.

When are Accounts Due?

Custom has made some rules which are now considered absolute by the best business houses. On general monthly credit accounts, all goods bought during the month are due on the first day of the month following and may be paid any time between the first and the tenth. Goods sold for cash should be paid for at once or within ten days from the date of sale.

If a discount is allowed for cash that discount can be claimed and is usually allowed if payment is made within 10 days. Goods bought on March 3 at 30 days would be due April 3 plus 10 days, or April 13. That is to say, if a discount were allowed for payment within 30 days the discount could be claimed if payment were not made until April 13.

It is a common custom to date sales ahead, to the first of the next month, or sometimes two or three months ahead. The dates of drafts then conform to the general custom of credits.

Collections Through Banks.

If you desire to have your *bills receivable* and *commercial drafts* collected through a bank, you should place them with the bank at least fifteen days before maturity. About ten days before maturity the bank will send to the maker a formal notice stating that they hold a note against him, giving the amount and date of maturity, and asking him to call and pay it.

When a note is left at a bank for collection, it should be indorsed "*Collected for account of*———." By this indorsement the note is not transferred to the bank. The bank is simply authorized to collect the amount.

Three-Party Draft.

If the drawer of a draft owes some one in the same city with the person upon whom he draws, that is, if he has a creditor and a debtor in the same city, he can draw on the debtor in favor of the creditor and forward the draft by mail to the creditor. The creditor will deposit it for collection in the ordinary way, usually after indorsing it.

"No Protest."

We often see attached to the end of a draft a little slip with the words "*No Protest; tear this off before presenting.*" This is simply private advice to the banker informing him that the drawer does not wish to have the draft protested. It may be that he does not wish to wrong, or injure the credit of, or add to the expense of his debtor, or it may be that he considers the account doubtful and does not wish to add to his own loss that of protest fees.

Discounting Drafts.

It is a common thing to have drafts discounted before they are accepted. For instance, a wholesale merchant may have accounts out amounting to \$100,000 and he may need immediate working capital. He draws on his customers and sells his drafts to a bank either directly or through a note broker. The amount of discount depends upon the money market. The drafts are as good as *one-name* notes. Some of them, of course, will be dis-

honored, but these are met by the drawer as soon as returned, or he may set aside an agreed-upon percentage of the entire amount to cover the drafts likely to be returned.

Drafts attached to bills of lading and other securities are frequently discounted when placed in the hands of the bank. Such drafts are usually drawn *at sight or at one day*.

Advantages of Taking a Note.

It is generally understood that a debtor is more likely to pay a promissory note than he is to keep a simple verbal promise. It will injure his credit if he allows his paper to go to protest. It is difficult, too, to dispute a claim after a note has been given in settlement. The note may also be used by the creditor in raising money for his own use; that is, he may get it *discounted*—sell it to a note broker or to a bank.

But there are some disadvantages. If a note is accepted from a debtor the account cannot be collected until the day of maturity of the note. You may hold a note against a debtor, and if your note is not due, you cannot by any process of law prevent your debtor from selling everything he owns and leaving for *parts unknown*.

A note that is overdue is in some particulars better than a note not yet matured. An overdue note draws interest at the legal rate from the date of maturity and legal steps to collect it may be taken at any moment.

Discounting Paper.

To discount a note or draft is to sell it *at a discount*. The rates of discount vary according to the security

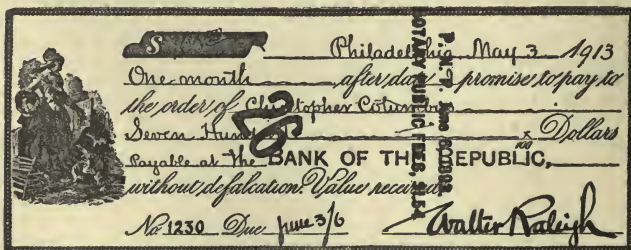
offered, or the character of the loan, or the state of the money market. For ordinary commercial paper the rates run from 4 to 8 per cent. Notes received and given by commercial houses are not usually for a longer period than four months.

Drafts and Bills of Lading.

The use made of commercial drafts in connection with bills of lading is quite interesting. For instance, the live cattle are paid for in Texas by the proceeds of a draft, with bill of lading attached, upon Chicago, where they are slaughtered. Bills of lading for the dressed beef shipped East are accompanied by drafts on New York, and the shipment per steamer to Liverpool or Glasgow is drawn against, in sterling, upon London. The latter draft is sold to a New York banker, who in turn draws against it in favor of merchants who are buying foreign exchange.

Protest Notice.

The student will notice the copy of a protest notice—the form used by notaries in Massachusetts. An illustration is given of a protested note stamped (in red or some other color) by the notary. The number is the clearing-house number of the bank.



A Protested Note.

L. VERNON BRIGGS, Notary Public.

U. S. PASSPORTS.

Commonwealth of Massachusetts.

County of Suffolk, } ss.
City of Boston. }

On this 14th day of March in the year of our Lord one thousand eight hundred and ninety four, J. L. VERNON BRIGGS, Notary Public, duly appointed and qualified for the Commonwealth of Massachusetts, residing in the City of Boston, at the request of the Cashier of the First National Bank of Boston, went with the original note which is hereto annexed, the time therein limited and grace having fully elapsed, and demanded payment thereof at the Broadway National Bank and was answered by the Teller: No funds?

The Note remaining unpaid, I duly and officially notified the indorsers, of said dishonor, by written notice sent each per mail to their offices in Boston Mass.

(fees prepaid.) _____ in said notice, requiring payment.
Wherefore, I, the said Notary, by request as aforesaid, have protested, and by these Presents do solemnly protest, against the Drawer of said Note and all others concerned therein, for Exchange, Re-Exchange, and all Costs, Charges, Damages, and Interest, Suffered and Sustained, or to be Suffered and Sustained, by reason or in consequence of the non-payment thereof.



In Testimony Whereof, I have hereunto set my hand and affixed my Notarial Seal, the day and year first above written.

{ Noting Fee Accepted,
Fees, Travel and Expense,
Protesting for Non Payment,
Fees, Travel and Expense,

109 L. Vernon Briggs

{ Notary Public.

62 Broadway Street.

1894

Overdue Paper.

Negotiable paper, whether made for accommodation or otherwise, may be transferred by indorsement and delivery or by delivery alone either before it has fallen due or afterward. There is a difference, however, in the liability attached to indorsers, and the value of the paper may be affected by the defenses existing between the original parties. It would be well to consult a lawyer before accepting overdue paper, particularly if it has indorsers.

Who is a Bona-fide Holder?

If the indorsee or holder of a note has no notice at the time he receives it, of any facts or circumstances that would prevent any of the parties to the paper before him from recovering the whole amount, he is a *bona fide* or innocent holder, and if he has paid for the note, he is a holder *for value*, and can recover its full face.

An alteration or change in some material part of a promissory note, by a party to it, makes the paper void as regards all parties except those who assent to the change. Adding an interest rate is a change.

A Set-off.

If a man has a claim against you and you have also a claim against him, you call your claim a *set-off*, that is something to *set* or cancel off part or all of his claim. Under ordinary conditions it is impossible to have a set-off against a note not in the hands of the original payee.

Notice of Non-payment of a Note.

If the note has been discounted or is in a bank for collection, the bank will send notice to the indorsers to

the effect that the note has been presented for payment and payment was refused. If the note is in the holder's hands and payment, upon presentation, has been refused, the holder should immediately send a written notice to the indorser, if any, stating that a certain note made by ———, for ———, in favor of ——— dated ———, and "by you indorsed" was "this day presented to ——— for payment, and payment was refused." Such notice may be sent by mail.

A "Mark" Signature.

When a man who cannot write is asked to sign a deed or mortgage or other legal document, the usual custom is to have him affix a cross as in the illustration, some one

His.
Charles X Meed
mark
witness: Wallace Dill

doing the writing for him. Such a signature should be witnessed. (See illustration.) An indorsement of this kind is legal and is quite common. There are no legal rules governing the shape of the mark.

An Important Provision.

A very important provision of the National Bank act is as follows: "No bank shall loan or discount on the security of shares in its own capital stock unless such se-

curity or purchase shall be necessary to prevent loss upon a debt previously contracted in good faith."

Power of Attorney.

To give some one else the power to sign or indorse checks, notes, or other important papers, is called giving such a one *power of attorney*, that is, the power or authority to be your attorney. Such authority when given should state explicitly what the *attorney* has power to do.

The Post-Office department issues a printed blank for use by those who wish to transfer to others the power to sign money orders.

Powers of this sort should be filed with the post-office, or bank interested, or should be made matters of public record at the office of the register of deeds. The student will find on the next page a power of attorney from Daniel Webster to Mrs. Webster giving her authority to draw and sign checks. This document appeared in *Rhodes' Journal of Banking* and was taken from the files of the bank where it was actually used by Mrs. Webster.

The Return of Vouchers.

Banks usually return to promisors and acceptors all the paper which they have collected. When you pay a note or draft you expect to receive the canceled note or draft in exchange for the money which you pay. In the same way paid checks are returned to the drawers of them, at the end of each month. This rule is not generally followed, however, between banks and their correspondents.

The canceled note or draft which you receive should not be destroyed. It may serve as an important voucher.

A good plan is to tear the signature through the middle and destroy the torn-off piece. The note is then destroyed as a credit instrument but remains sufficiently complete to serve as a voucher.

Know all men by these presents that
 I, Daniel Webster have constituted & appointed, & do constitute & appoint, my
 wife E. Le R. Webster, my true & lawful
 attorney, in my name & stead, or in her
 own name, to make & draw, at all times
 hereafter, checks, or orders for any money
 standing my credit in the State Bank
 in Boston; & I hereby authorize said
 Bank & its officers to pay all such orders
 & checks, in the same manner as if
 drawn by my-self
 Witness my hand, at Boston,
 the 15th day of January 1847—
 Detuff
 Peter Hacey
 Daniel Webster

A Power of Attorney Given by Daniel Webster.

Due Bills.

A due bill is an acknowledgment and evidence of a debt. It may be payable in money or in merchandise. The ordinary form of due bill is not negotiable.

How Notes Differ from Other Contracts.

There are three peculiarities which distinguish promissory notes from ordinary written contracts.

1. Notes are negotiable.
2. There is no statement in a note of consideration.
3. There are no days of grace allowed on ordinary contracts.

A note must have a clear promise to pay, without any attached conditions. The time must be certain, that is, it must not depend upon the happening of some uncertain event.

Legal Tender.

In making money payments it is necessary often, or if the receiver demands it, to make payment in legal tender, that is, in the form of money required by law. For instance you cannot pay an account of \$18 in ten-cent prices, if the creditor refuses to accept, for the reason that silver coins of smaller denomination than one dollar are legal tender only in all sums not exceeding \$10.

Note Brokers.

Merchants sell a great many of their notes in the open market, that is, to note brokers. The banks buy these notes from the note brokers. The assistance of the broker who handles commercial paper is a necessary and valuable aid to the purchasing bank. Fully seven-eighths of all paper purchased by New York city banks is purchased upon the simple recommendation of the note brokers. As a rule these brokers simply transfer the paper without guaranteeing, by indorsement, its payment. Notes bought by banks from note brokers without their

indorsement are held to be guaranteed by them to be all right, in all points except that which covers the question of whether they will be paid or not. The bank uses its best judgment in taking the risk.

If the note dealer, in selling notes to a bank, makes what he believes to be fair and honest representations regarding any particular paper, statements of such straightforward type that upon them no charge of false pretenses can be made to rest, he simply guarantees the note genuine as to names, date, amount, etc., and that, in selling it, he conveys a good title to the paper. As business men, however, they are very cautious, and are exceedingly anxious that the paper they sell shall be paid, and as a rule they make good any losses which grow out of apparent misrepresentations on their part.

Single-name Paper.

The custom of issuing single-name paper has grown largely of late. The maker is the borrower, and the buyer must consider his personal credit when making the purchase. It is estimated that two-thirds of all the paper bought by New York city banks is single-name. Such paper makes no pretense to be anything else but what it appears, a simple promise to pay, and in this it differs from accommodation paper. Genuine double-name paper consists of notes given in actual payments of merchandise sales.

Demand Collateral Note.

An illustration is given of a demand collateral note. The bank loans money payable on demand and accepts, in this instance, railroad stock as security. The stock is

held by the bank until the note is paid, and if not paid, the stock becomes the property of the bank.

\$6200 ⁰⁰	Portland Me., June 3, 1915.
On demand after date, WE promise to pay to the order of	
The Tenth National Bank of PORTLAND	
Sixty two hundred	DOLLARS,
with interest from date, without defalcation, for value received, and have delivered with this note, as collateral security,	
80 Shares, Chicago, Bur. & Quincy R.R. Co. Stock	
<small>and do agree, on demand, to deposit with the holders such additional security as they may from time to time require, and in default thereof this note shall on maturity become due and payable as though it had actually matured, and upon default of payment at maturity, whether such maturity occurs by expiration of time or default in depositing additional security as above agreed, do hereby authorize and empower the holders hereof for the purpose of liquidation of this note, and of all interest and costs thereon, to sell, transfer, and deliver the whole or any part of such security, or any additions thereto, or subsume therefor without any previous demand, advertisement or notice, either at brokers' board or public or private sale, at any time or times thereafter, with the right on the part of such holders to become the purchaser and absolute owner thereof, free of all trusts and claims. And it is further agreed that the securities hereby pledged, together with any that may be pledged hereafter, shall be applicable in like manner to secure the payment of any part or of any future obligations of the undersigned held by the holders of this obligation, and all such securities in their hands shall stand as one general continuing collateral security for the whole of said obligations, so that the deficiency on any one shall be made good from the collaterals for the rest, hereby remaining responsible for any deficiency in payment, and waiving any benefit, exemption, or privilege under any law now or hereafter to be in force.</small>	
Due	Cash Coin and Co

Demand Collateral Note.

Waiver of Demand and Notice.

All indorsed demand notes held by a bank should start with a waiver of demand and notice by the indorser, since in time (in some states in 60 days) indorsers are lost—unless a demand for payment is made upon promisors—if this precaution has not been attended to.


A Judgment Note.

Some of the states, noticeably Pennsylvania, have a form of promissory note called a judgment note. In this form of note the maker confesses judgment if the note is not paid and authorizes the court to take possession of sufficient of his property immediately to satisfy the amount of the claim. It is really a very severe form of contract and should be given only under the most extreme conditions.

Collection Laws.

An *attachment* is a writ issued at the commencement of, or during a suit at law in court, commanding the

sheriff, or other proper officer, to attach the property of the defendant, to satisfy the demands of the plaintiff. The property of corporations may be attached as well as that of individuals. By this process the plaintiff gains a lien on the attached property, which lien will await the judgment of the court in the suit. In many of the states the defendant may dissolve the attachment by giving a bond, with sureties, that he will pay such judgment as the plaintiff may obtain in the suit.

\$2000		Lansdowne. Pa. 2/11 1909-	
One day _____		after date I promise to pay	
to William Penn _____		or Order,	
Three thousand _____		* 700 DOLLARS,	
<small>I have received, with interest; And do hereby authorize any Attorney of this County, or any other County in this State, or elsewhere, to enter and confess judgment for the above sum, with costs of suit and Attorney's commission of five per cent, for collection, release of errors, and without stay of execution, and do waive the right and benefit of any law of this or any other State exempting property, real or personal, from sale, and if levy is made on land, do also waive the right and inquisition, and consent to the condemnation thereof, with full liberty to sell the same on <i>ft. ft.</i> with release of errors therein.</small>			
Due _____		 Jonathan Edwards	

A Judgment Note.

A suit is ended by the court's giving a final judgment, either for the plaintiff or for the defendant, at the same time fixing the amount in dispute, if judgment is for the plaintiff.

Execution is the act of carrying into effect the final judgment of a court. If property of any kind is sold under execution, the proceeds go to satisfy the judgment and any costs or charges; and then, if there is any surplus, it belongs to the defendant. By the *homestead* and *exemption* laws of many states, certain kinds and amounts of property are exempted from attachment and

sale on execution. By *garnishment* or *trustee process* is meant the attaching of money or goods, due a defendant, in the hands of a third person.

By *exemption* is meant the right given by law to a debtor to retain a portion of his property free from a sale on execution at the suit of a creditor.

CHAPTER X.

CREDIT AND EXCHANGE.

It is to credit alone that we are indebted for that intermediate agent which plays so important a part in the transaction of business, whether it be in causing supply and demand to meet, or in applying to the industry of exchange the principle of the division of labor which is so favorable to production.

Without credit this intermediary is impossible in most instances. It gives birth to both industry and trade. It multiplies the producing and consuming power of society; by facilitating exchange it accelerates and increases it.

In reality the largest share of the business of the world is done on a credit basis. In many instances the instruments of payment which we call cash are in reality only promises to pay.

During the Middle Ages credit transactions of great importance and on long time were effected without leaving the slightest trace in writing; and even to this day the Russian producers and merchants who frequent the great annual fair at Nijni Novgorod, contract credit obligations for twelve months' time, without giving the least evidence of the debt, and that for a very good reason: very frequently they can neither read nor write.

When we give credit we give value and wait for the value we are to receive in return; but we often cannot

afford to do this, so we get some other person to wait for us by giving him an instrument of credit which we take when we deliver our goods. This person to whom we give the instrument of credit may not be able to wait either, so he takes the paper to the bank and discounts it. It is the business of the bank to wait, not the business of the merchant. The latter should keep his full capital active every day and every dollar he is waiting for is inactive and is earning nothing.

On the other hand the bank increases its capital by waiting, for the simple reason that it charges for waiting just as a lawyer charges for giving his time to his client.

But does this increased circulation increase capital? The machine runs faster and turns out more work, but doesn't increase its size or its intrinsic value; it is the work that counts, not the machine.

History of Financial Exchange.

In early times foreign trade consisted in the direct exchange of commodities. A caravan set out with a variety of manufactured articles, across the deserts of Arabia or Sahara, and came back with the ivory, spices, and other valuable raw products obtained by barter. In later times the merchant loaded his own ship and sent her forth on an adventure, trusting that his shipmaster would sell the cargo to advantage, and, with the proceeds, bring back another cargo to be sold to great profit at home. Trade was thus reciprocal, and what was sent out paid for what was brought back.

Wherever this direct reciprocal exchange did not exist it was necessary to devise some mode of trans-

ferring debts. To the early Italian and Jewish merchants we owe the development of the use of the credit instruments which have since developed into bills of exchange. As early as the fourteenth century bills were used under similar customs and of about the same form as those of the present day.

Principles of Exchange.

In commerce the term *exchange* is generally used to designate that species of mercantile transactions by which the debts of individuals residing at a distance from their creditors are canceled without the transmission of money. Among cities or countries having any considerable intercourse together, the debts mutually due by each other approach, for the most part, near to an equality.

There are at all times, for example, a number of persons in New York indebted to London, and perhaps, as many persons in London indebted to New York. Hence when A of New York wishes to make a payment to B of London, he does not send the actual money, but he goes into the market and buys a *bill of exchange* on London; that is, he goes to a New York bank, doing a foreign business, such as Brown Bros. or J. Pierpont Morgan & Co. and buys a draft, called a bill of exchange, which is in reality the New York banker's order on his London *correspondent*, asking the latter to pay the money to the person named.

It may be that about the same time some London merchant who owes money in New York goes to the very same London banker and buys a draft on the New York bank. In this way the one draft cancels the other, and

when there is a difference at the end of a week or month the actual gold is sent across to balance the account.

Inland or domestic bills are commonly called *drafts*. Foreign bills, that is bills on foreign countries, are called *exchange*.

The *par* of the currency of any two countries means, among merchants, the equivalency of a certain amount of the currency of the one in the currency of the other, supposing the currencies of both to be of the precise weight and purity fixed by their respective mints. Thus, according to the mint regulations of Great Britain and France, £1 sterling is equal to 25.2 francs, which is said to be the *par* between London and Paris. And the exchange between the two countries is said to be *at par* when bills are bought and sold at this rate; that, is for example, when a bill for £100 drawn in London is worth 2520 francs in Paris, and conversely. When £1 in London buys more than 25.2 fr., exchange is said to be in favor of London.

The *par* of exchange between Great Britain and the United States is 4.86 2-3, that is, £1 sterling is worth \$4.86 2-3.

Exchange is quoted daily in New York and other city papers at 4.87, or 4.87½, etc., for sight bills and at a slightly lower rate for sixty-day bills. These are the two common kinds of bills usually bought. The sixty-day bills bought in New York are as good as cash when they reach London, but they are cashed at a discount from their face value, unless they are held until the date of maturity.

The foregoing statements explain in a general way the meaning of the *par of exchange*, but its exact determina-

tion, or the ascertaining of the precise equivalency of a certain amount of the currency of one country in the currency of another, is exceedingly difficult. If the standard of one be gold and that of another silver, the par must necessarily vary with every variation in the relative values of these metals. The value of the precious metals even in contiguous countries, is always exposed to fluctuations from the over-issue or withdrawal of paper, from circumstances affecting the balance of payments. Gold is usually high when there is a demand for gold or a scarcity of it, just as it is in the case of potatoes or wheat. It is obvious, therefore, that it is all but impossible to say, by merely looking at the mint regulations of any two or more countries, and the prices of bullion in each, what is the par of exchange between them.

The imports and exports of bullion are the real test of exchange. If bullion is stationary, neither flowing into nor out of a country, its exchanges may be truly said to be at par; and, on the other hand, if the bullion is being exported from a country, it is proof that the exchange is against it, and conversely if there be large importations.

Variations in the actual course of exchange, or in the price of bills, arising from circumstances affecting the currency of two countries trading together, are *nominal* only: such as are *real* grow out of circumstances affecting their trade. When each buys of the other commodities of precisely the same value, their debits and credits will be equal, and the real exchange will be at par. This condition of affairs very rarely happens.

The cost of conveying bullion from one country to another forms the limit within which the rise and fall of the

real exchange between them must be confined. If a New York merchant owes a debt in London and exchange costs him, say 2 per cent, and the cost of shipping the gold is only 1 per cent, it will be to his advantage to pay the debt by sending the actual coin across, so that the limit within which trade fluctuations may range corresponds to the actual cost of making remittances in cash.

Fluctuations in the nominal exchange, that is, in the value of *currencies* of countries trading together, have no real effect on foreign trade. When the currency is depreciated, the premium which the exporter of commodities derives from the sale of the bill drawn on his correspondent abroad is only equivalent to the increase in the price of the goods exported, occasioned by this depreciation.

A favorable *real* exchange operates as a duty on exportation, and as a bounty on importation. It is to the interest of merchants or bankers who deal in foreign bills to buy them where they can get them the cheapest, and to sell them where they are the dearest. For this reason it might often be an advantage for a New York merchant to buy a bill on London to pay a debt in Paris, or to buy a bill on Paris to pay a debt in Berlin. For instance, in the trade between England and Italy the bills drawn on England amount almost invariably to a greater sum than those drawn on Italy. The bill-merchants, however, by buying up the excess of the Italian bills on London, and selling them in France and other countries indebted to England, prevent the *real* exchange from ever becoming very much depressed.

Changes in Exchange Rates.

Exchange is not affected so much by the balance of trade as by the balance of indebtedness. Europe can contract debts in America by the purchase of stocks, bonds, or other securities as readily as by the purchase of wheat, cotton, or oil, the rate of foreign exchange being similarly affected no matter what is bought. European owners of American securities when sending them to America obtain the right to draw against the American receivers of those securities.

One hundred shares of stock sent by a London firm to a New York firm will make as much exchange against New York as the same value in wheat shipped by a New York firm to a Liverpool account; so that the balance of trade, so far as imports and exports are concerned, may appear favorable and yet no balance of indebtedness appear. The movement of merchandise is recorded while the movement of securities is not recorded. The sum total of our securities in European hands is unknown, but it probably exceeds our national debt.

The rate of foreign exchange, affected by trade movements and by the movements of securities, is also affected by interest and dividend payments and by remittances for freight on importations of merchandise, the owners of vessels usually being foreigners. Our large cities send annually to Europe drafts for hundreds of thousands of dollars to cover interest on city bonds.

Foreign exchange is affected too, by the difference which exists at any time between the American and European market rate of interest. If money can be loaned

at 10 per cent in New York while only 3 per cent can be obtained in London, there is an advantage in keeping or sending money there, the difference in interest being greater than the cost of transportation. The fact of the United States being a gold producing country is also important, for it indicates that a small annual export of gold is to be expected.

There is another factor which has a noticeable effect, namely that of travel. Thousands of wealthy Americans travel abroad every summer and the letters of credit which they carry, if not counterbalanced by some other cause, require gold shipments to meet them. Ordinarily when the market rate of demand exceeds 4.867 it is evident that foreign goods have been imported too freely, or American goods are not wanted abroad, or American securities find a better market here than in Europe, or rates of interest here are too low to attract or keep foreign money, or foreigners are short of money, or there are a great number of Americans abroad, or we have produced a surplus of gold, or freight remittances are large, or interest payments on securities owned abroad are heavy. And when the market rate is below 4.867, the reverse is true.

Of course there are other causes, and important ones too, but those named are the principal causes of changes in rates under normal trade conditions. Eastern capital is extensively used in the West, because the people of the West can make a profit by its use in excess of the interest and dividends sent to its owners. For the very same reason, European capital is extensively used in the United States.

Exchange Terms.

There are several terms used in connection with exchange which should be understood. *Bankers' bills* of exchange are bills drawn by bankers on bankers. *Commercial bills* are those based upon movements of merchandise, and drawn by merchants. *Documentary bills* are those which are accompanied by bills of lading. *Normal* exchange rates are those quoted in newspapers; there are lower or *inside* rates which are made to brokers, through whom most of the buying and selling is done.

Domestic Exchange.

The principle of domestic or local exchange is precisely the same as that described as underlying the foreign exchange business. In foreign exchange we have to do with a mixture of dollars with sovereigns or other foreign money. In domestic exchange we have dollars at both ends of the line.

Suppose A of New York owes B of Chicago \$12,000. He buys a draft (check) on Chicago for this sum and mails it to B. Now this draft will cost him something in addition to its face, but it should not cost more than \$12 exchange, for the reason that A can take his \$12,000 in bills or gold and express it to Chicago for \$12. If \$12 were charged the rate of exchange would be 1/10 of one per cent.

But suppose that at the same time C of Chicago has \$8,000 to send to D of New York and is trying to buy a draft in Chicago. If C keeps his money or turns it over to B, or to B's bank, or for that matter to any bank, A need not ship more than \$4,000, for the balance can be turned over to D in New York, or to D's bank, or to

any bank. Now \$4,000 can be shipped for \$4, so that the rate of exchange on a draft for \$12,000, only \$4,000 of which need be shipped, should not be more than one-thirtieth of one per cent.

Under normal conditions exchange should be based upon the cost of shipping the balances due rather than the gross amounts due. If Chicago is buying more through New York than New York is buying through Chicago, it will be necessary at regular intervals to ship gold or bills from Chicago to New York to meet the differences, and when this is the trade condition, drafts on New York if purchased in Chicago will be at a premium. Drafts bought in New York on Chicago should be at a discount, but as a matter of fact, they will be at par.

There are, of course, many other things which affect exchanges. Our banking system is such that the condition of the money market is uniform in each banking center, but these centers may differ very largely from each other, and while in Boston the banks might have more money than they could use, the banks of St. Louis or St. Paul might be unable to meet the demand upon them.

The Cost of Shipping Gold.

There are times when it is to the advantage of the banker or merchant to ship gold to meet foreign debts. Usually if sight bills on England cost more than 4.90 it is cheaper to ship gold. The following figures give some particulars of the cost of such shipments: *Freight*— $\frac{1}{8}$ of one per cent. *Insurance*— $\frac{1}{8}$ of one per cent. *Abrasion*—From nothing to $\frac{1}{8}$ of one per cent on \$20-pieces; $\frac{1}{8}$ per cent to $\frac{1}{4}$ per cent on \$10-pieces, and $\frac{1}{4}$ per cent. to $\frac{1}{2}$ per cent on \$5-pieces.

The cost of bringing gold from London to New York is the same as the cost from New York to London. The actual demand for gold in either city will affect its value slightly, and this temporary value must be ascertained before making close figures on a large transaction.

The World's Financial Center.

There is no doubt of the fact that London is the financial center of the world. This tendency to the centralization of financial business in London is much promoted by the fact that the largest mass of cheap loanable capital exists there. The general rate of interest in New York is at least 3 per cent higher than in London, so that a trader who has credit enough to obtain loans in London will make a profit by borrowing there rather than in New York city. The great banks of the world each of which is a center for its own section of country must have a general center for clearings and London has grown to be this center. The great foreign trade of England, her thousands of carrying ships, her merchants and investments in every country on the globe, the age and strength of her great financial institutions, and the many distant colonies and dependencies which naturally have financial relations with the capital of the empire, tend to give London the unique position which is rightfully hers. Lombard and Threadneedle streets are the great money streets of London, as Wall street is of New York.

The World's Currencies.

In addition to the gold and silver coins, the *United States* has in circulation about \$350,000,000 in "greenbacks"—the remnant of the forced paper currency of the civil war; about \$155,000,000 in Treasury notes issued in

payment for silver bullion; gold certificates in denominations of not less than \$10, issued upon deposits of gold; silver certificates issued against standard silver dollars deposited in the Treasury; currency certificates issued in denominations of not less than \$5,000 upon the deposit with the Treasury, by national banks, of United States legal tender notes; national bank notes of denominations of \$5 and upward, issued by banks upon the deposit with the Treasury of United States bonds which are held as security for the ultimate redemption of the notes.

The currency of *Great Britain* in actual circulation includes the gold sovereign (value \$4.8665) and half-sovereign; the silver crown (value \$1.087), half-crown, shilling (value \$0.217), sixpence, four-pence, and three-pence. The paper money includes the notes of the Bank of England, the smallest denomination of which is £5, the notes of the Scotch and Irish banks, the smallest denomination of which is £1, and the notes of the joint-stock and private banks.

The currency of *Canada* is in form, at least, similar to that of the United States. Canada has no gold coinage of her own, but is considering (1910) the establishment of a gold coinage of \$5 pieces on the same standard as the American coinage. The gold coins of the United States and Great Britain pass current and are legal tender. The silver coins are similar to those of the United States, except that there is no silver dollar, and a silver five-cent piece. The notes issued under the authority of the Dominion are of the denominations \$1, 2 and \$4, and are redeemable on demand in gold. Bank notes are issued by the chartered banks in denominations not smaller

than \$5. No special security in the way of deposit of bonds is required, but the notes in case of insolvency are a preferred claim against all the assets of the bank, including the double liability of the stockholders. The aggregate issue rarely exceeds sixty per cent of the paid-up capital of the bank and must not exceed one hundred per cent.

The monetary system of *Australia* is the same as that of Great Britain.

British India has a silver standard unit, the rupee (value \$0.444). There are gold coins in value equal to five, ten, fifteen and twenty rupees respectively. The government issues notes ranging in value from five to ten thousand rupees secured by deposits of gold and silver. The money in circulation in India exceeds one billion dollars.

Germany has a gold standard with the mark (value \$0.208) as the monetary unit. The smallest gold coin is the 5-mark piece. The silver coins are the 5-mark, 2-mark, 1-mark, $\frac{1}{2}$ -mark, and $\frac{1}{5}$ -mark pieces. The paper money includes the imperial treasury notes payable in gold, and the bank notes of the Reichsbank, an institution with individual shareholders, but largely under the control of the government. The issue of notes of less denomination than 100 marks is prohibited.

The government of *Austria-Hungary* has recently established a monetary system with the gold crown (value \$0.203) as the unit. The gold coins consist of a 10-crown and a 20-crown piece, and the silver coins of a crown and a half-crown piece. As a matter of fact there is very little metallic money in circulation. The money

most in use consists of an irredeemable paper currency issued by the Austro-Hungarian Bank in denominations of 10, 100, and 1,000 florins (two-crowns), and by the treasury in smaller denominations.

The *Latin Union*, which includes France, Belgium, Italy, Switzerland, and Greece, has now a single gold standard with the franc (value \$0.1929) as the monetary unit. The smallest gold coin is the 5-franc piece; the silver coins are the franc, the 2-franc, the half-franc and the 20-centimes (one-fifth of a franc). The coins of one country are received at par in the others. *France* issues bank notes through the bank of France. *Belgium* issues bank notes through the bank of Belgium, payable to the bearer at sight, and the individuals and associations are free to issue bank notes on their own responsibility. *Italy* has no state bank, but there are in the country six banks which are authorized to issue notes payable on demand. The smallest denomination is 50-lire. *Switzerland* has now a state bank with central offices at Berne and branches throughout the country. *Greece* has three banks authorized to issue notes on such a very low gold and silver reserve that for many years gold has been at a premium.

Spain has the silver peseta, equivalent to the franc, as a monetary unit. It has the same gold and silver coins as the other countries of the Latin Union. The only bank of issue in the country is the bank of Spain, a private institution, with certain government restrictions. Its smallest note of issue has the value of 25-pesetas.

The Scandinavian Monetary Union embraces Sweden, Norway and Denmark. The krone or crown (value \$0.-

268) is the monetary unit. The gold coins are 10-kronen and 20-kronen, and the silver coins are the 2-kronen, the krone, and the fractional currency. *Sweden* has a bank of issue entirely under the control of the state. Joint-stock banks are also permitted to issue notes under restrictions favorable to the monetary system. *Norway* has one bank of issue—a joint-stock bank with the state as principal shareholder. *Denmark* issues notes through a state bank.

The monetary unit of *The Netherlands* is the guilder or florin (value \$0.402) of 100 cents. The gold coins are the 10-florin and 5-florin pieces. The bank of the Netherlands, situated in Amsterdam, has the exclusive right to issue notes.

The monetary unit of *Russia* is the gold ruble (value \$0.52) of 100 kopecks. Other gold coins are the imperial equal to 10 rubles and the half-imperial. The National Bank of Russia is the only bank of issue in the empire. This bank issues paper money denominations of 1, 3, 5, 10, 25, and 100 rubles.

The gold milreis (value \$1.08) is the monetary unit of *Portugal*.

The only bank of issue in *Turkey* is the Imperial Ottoman the notes of which are payable exclusively in gold.

The currency of *China* is made from an alloy of copper, iron, and tin. In all large transactions, silver by weight is the medium of exchange, the Mexican dollar being used in the South and ingots called shoes, in the North. There are large numbers of private banks which issue notes upon their own authority for local circulation.

The legal money of *Japan* is the yen of 100 sen. The yen is almost equal in value to our silver dollar. Trade

among Japanese is carried on to a large extent by paper money issued under the authority of the government.

Mexico had a silver standard until 1905, when it adopted the gold standard. The Mexican dollar (el peso) is the unit, and under the name of piaster, is the current coin of several countries in America, Asia, and Africa. There are also gold coins in circulation, the smallest (1 peso) being almost equal in value to our gold dollar.

The *Central American States* have bank notes, but the metallic currency of these republics is largely Mexican.

Chile is on a silver basis, so far as specie is concerned. The real medium of exchange is a depreciated paper currency. The unit is the peso equal to the 5-franc piece of France.

The unit of the *Argentine Republic* is the same, but of gold. The actual currency is depreciated paper fluctuating greatly in value.

English Money.

Any person may take bar gold to the extent of £20,000 to the English mint and have it returned to him in sovereigns and half-sovereigns. The Bank of England receives bar gold at £3 17s. 9d. per ounce and pays in gold coin. The English sovereign weighs 123.274 grains, and is a legal tender so long as it does not weigh less than 122.5.

English silver and bronze coins are *fiat money*, that is, their intrinsic value is materially less than their face value. The difference between the *token* value and the real or intrinsic value is called *seigniorage* and this is a large source of revenue.

English gold coins are a legal tender for any amount; silver coins are a legal tender for only forty shillings or

less, and bronze coins for one shilling or less. The gold is largely handled by bullion brokers.

The Bank of England notes are very ordinary looking pieces of white paper with plain black printing, somewhat larger in size than those of the United States. The paper is especially made, is very strong, and is not easily burned. No note is paid out a second time. Every check or draft is paid in new bills.

In sending bank notes by mail the Englishman generally cuts them in halves, takes a careful record of their marks and numbers, and sends one of the halves by registered mail, and the other by ordinary post.

The Scotch and Irish banks have a paper issue of their own, and there are joint-stock banks and private banks that issue bank notes. These bank notes, although they pass current, are not legal tenders.

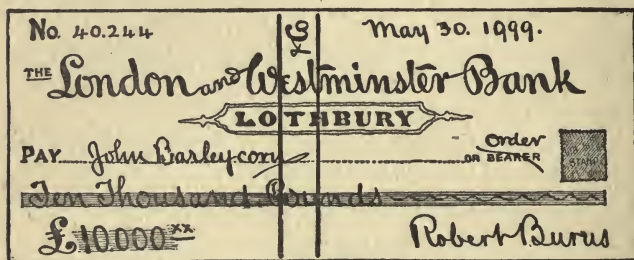
“Crossed” Checks.

The *crossed* check so common in Britain is unknown in the United States. It is simply an ordinary check that has upon its face marks which signify that it must be presented through some other bank or banker; and checks of this description will not be cashed if they reach the bank upon which they are drawn by any other way. They are absolutely worthless for presentation in the hands of the wrong persons.

The banks are forbidden by law to cash such a check over the counter. The receiver of such a check must necessarily deposit it. Our stamped words “Payable only through the —— clearing house when properly indorsed” have nearly the same effect.

Some houses say on their bill-heads how checks are to

be crossed. When the check is crossed simply by two lines it may reach the bank upon which it is drawn, through any bank; when it is crossed with a bank's name, it must reach the bank upon which it is drawn through the banker whose name appears between the crossed lines. When the drawer knows the name of the payee's banker he usually inserts it; otherwise he simply draws the lines.



A "Crossed" Check.

English banks do not certify checks. Every check must bear a penny stamp no matter for how small an amount it is drawn.

The British Consols.

The British *consols* are securities representing the consolidated debt of England; the word *consol* being an abbreviation of consolidated. They are quoted in the financial columns of the newspapers. Here is an illustration: "*Consols are unchanged at 94 $\frac{5}{8}$ for cash and 94 $\frac{7}{8}$ for November settlement.*" The word settlement is used as we would use the word account. On the London Stock Exchange there are special settling days for securities of all sorts, including transactions in foreign exchange. By "November settlement" it is understood

that the consols are to be paid for on the November settling day.

Canadian Money.

Many Americans hesitate to accept Canadian money, usually for the reason that they have difficulty in passing it and partly from ignorance of its security. The Canadian silver coins are in reality of greater value than the corresponding coins of the United States, for the reason that they contain more silver.

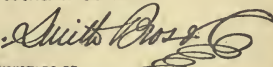
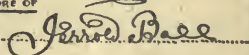
The Canadian one-dollar-bill, two-dollar-bill, and four-dollar-bill are equal in value to the very best securities offered in the United States, for the reason that they are issued by the Canadian government and are covered by actual gold and silver in the treasury.

The notes issued by the Canadian banks are almost equally good, for the reason that the banks are very large institutions, and fully equal to the largest banks in the United States.

The Bank of Montreal is one of the largest and strongest financial institutions in the world. It has about 150 branches in the large cities and towns of the Dominion. The Canadian Bank of Commerce and the Merchants' Bank of Canada are also institutions of splendid strength.

No bank is chartered that has not a capital of at least \$500,000. There are in all about 35 banks with numerous branches. These banks issue notes of denominations of \$5 and upward, but the government regulations are so exacting that if a bank should fail the holders of its notes would be almost sure to receive their full value. These banks always pay out over the counter their own bills.

Under the United States system, which leaves each bank so largely dependent upon the fortunes of its locality, and the business of each locality so entirely de-

Smith Bros & Co CIRCULAR LETTER of CREDIT No 24609	New York March 25. 1916
Gentlemen:	
We request that you will have the goodness to furnish <u>James Ball</u> the bearer, whose signature is at foot, with any funds he may require to the extent of £500—(say Five Hundred pounds sterling) against his drafts upon MESS^{RS} SMITH BROS. & CO. LONDON : each draft <u>must bear the number</u> (No 24609) of this letter, and we engage that the same shall meet due honor	
Whatever sums, <u>Mr. Ball</u> may take up you will <u>please endorse on the back</u> of this circular letter which is to continue in force till <u>March 25</u> 1899 from the present date	
We are respectfully, Gentlemen, Your obedient servants  THE SIGNATURE OF 	
To Messieurs The Bankers mentioned on the 2d page of this Letter of Credit	

A Letter of Credit, First Page.

pendent upon its local banks, it is a common thing to see mutual ruin of banks and business in numerous widely

scattered localities, while the business of the country as a whole is sound.

Such results are impossible in Canada. The widely extended system of each of the great banks, with its branches in every part of the country, constitutes a sort of financial insurance, by which each helps to guarantee the soundness of all; while the Canadian branch systems, interlocking at every town, leave it simply impossible that any local point of the least importance should for a moment be lacking in the most complete discount, currency, and other banking facilities, so long as the whole business of the Dominion is not involved in common ruin. The currency system is elastic and always meets the demands. Panics for fear of stringency are unknown. A run on a bank, as it is understood in the United States, is practically impossible.

Letters of Credit.

The ordinary letter of credit is the leading and usual instrument for the use of travelers in Europe and has now become such a common feature of banking that every one should be familiar with its form and purpose. We reproduce a facsimile of the first and second pages of a circular letter for £500. The first is the credit proper, authorizing the various correspondents of the bank issuing it, who are named on the third and fourth pages, or any other banker to whom the letter may be presented, to pay the holder, whose signature is given on its face, money to the extent of £500. The second page shows how the holder availed himself of the advantages of the letter. It gives the names of the banks to which he presented his letter and the amounts paid by

each. With such a letter a traveler could make a trip around the world and not carry in his pocket at any one time more gold or silver or bills than would be necessary to meet immediate local expenses. When a banker issues a letter of credit, the party purchasing it, and who is to use it abroad, places his signature upon a lower

DATE WHEN PAID	By WHOM PAID	NAME of TOWN	Am't expressed in words	Am't in figures
Apr. 12	Brown Shipley & Co	Liverpool	Twenty Pounds	£ 20 0 0
April 15	John Munroe & Co	Paris	Sixty Pounds	60
May 3	DeLong & Co	Brussels	Twenty Pounds	20
June 6	Hoch & Lauterbach & Co	Hamburg	Twenty Pounds	20
" 18	C. B. Brown	Frankfurt	One Hundred Pounds	100 0 0
July 5	John Munroe & Co	Paris	Fifty Pounds	50
" 13	Stak. Bank of Scot	Edinburgh	Twenty Pounds	20
" 20	Northern Banking Co	Belfast	Twenty Five Pounds	25 0 0
" 22	Royal Bank of Dublin	Dublin	Ten Pounds	10 - -
" 25	Val. Bank	Cork	Twenty Pounds	10 - -
Aug 1	London & Westminster Bk.	London	Forty Pounds	40 - -

Second Page of Letter of Credit.

corner of the document in the banker's presence. Other copies of the signature are left and are forwarded to the leading foreign bankers drawn upon. When the party buying the draft presents himself at a London or Paris bank with his letter of credit and asks for a payment upon it, the banker asks him to sign a draft on the American banker issuing the letter, for the amount required, which amount is properly entered upon the letter of

credit before it is returned to the payee. Payment is usually made upon the simple identification or comparison of signatures.

If a traveler should lose his letter of credit he should notify at once the banks upon and by whom it is drawn.

These letters are cash anywhere. Almost any banker in the world will at any time consider it to his advantage to buy a reliable sterling draft on London. Such drafts should sell at a premium anywhere.

“At a period in the country’s life when the cost of living is only surpassed by actual waste and extravagance, it is the banks throughout the country which steadfastly and attractively give wide publicity and reasons for saving. It is an example of good business enterprise; it does not lessen its educative value because the banks profit through it.”

CHAPTER XI.

BANKING IN CANADA.

BY B. E. WALKER.*

In common with other social developments, modern banking is mainly the result of heredity and environment, and not of arbitrary legislation or the general admission in any wide degree of settled principles in the practice of banking. The student endeavoring to understand the science of banking, seeking to discover some body of principles underlying the practice of banking throughout the world, is confused by the radical differences between the systems of the various nations and the complicated nature of the conditions surrounding each of these systems. The most cherished dogma of one country is rank heresy in another. The principles suitable to an old country, with a compact population, a highly developed railroad and telegraph organization for the distribution of commodities and information, and wealth enough to be lenders to other nations, are not applicable to a new country with a scattered population, imperfect means of distribution, and little wealth apart from fixed property—a country, indeed, requiring to borrow largely from older and wealthier communities.

Again, if in any country banking has been left to develop itself in accordance alone with the requirements of trade, or nearly so, that country has been fortunate in

* President of the Canadian Bank of Commerce, Toronto.

this respect as compared with others, where the national debt, caused by war or extravagances in public works, has been made the basis of the currency. Sometimes, however, the condition of the present environment in two countries may be in many respects similar, and yet a practice in banking which has worked out desirable results in one of these countries cannot be attempted in the other. The body of banking principles in the other country may be so different, because of hereditary influences, as to make it impossible by any kind of evolution to add the practice which has proved so serviceable elsewhere.

I am aware that there is nothing new in this point of view, but in attempting to speak on the subject of banking in Canada, I cannot avoid comparison with this great country where banking systems are being keenly discussed, and where it is admitted that changes, perhaps of a radical nature, are necessary. In contending for the comparative perfection of the Canadian system, I do not wish to be understood as asserting that the points of superiority in our system could be adopted here. For over half a century banking in the United States has been following lines of development opposed in many respects to the Canadian system, and it may well be that no matter how desirable, it is too late to adopt our practices.

My main object, however, is to describe the banking of Canada, and to demonstrate, if I can, its suitability to the requirements of trade in that country and not its suitability elsewhere.

Bank Charters.

It has been occasionally urged by writers in financial journals published in the United States, that banking in Canada is a monopoly, and, therefore, unsuited to the democratic principles of this country. These writers have overlooked the fact that the Province of Ontario, the center of thought and progress in the Dominion, is the most democratic community in the British Empire, and that the legislation of Canada, whether in form or not, is in reality as liberal as it can well be.

Banking in Canada is not in any sense a monopoly. Whether it can be said to be "free banking" as understood in the United States, depends on what is meant by that term. In the United States a certain number of individuals having complied with certain requirements—more numerous and complicated, by the way, than the Canadian requirements—become thereby an incorporated bank, if we regard the consent of the Comptroller of the Currency as a matter of form. In Canada, merely in order to follow the British parliamentary methods, when a certain number of individuals have complied with certain requirements, they are supposed to have applied for a charter, which parliament, theoretically, might refuse, but which, as a matter of fact, would not be refused unless doubt existed as to the bona-fide character of the proposed bank. Then, as in the United States, on complying with certain other requirements and obtaining consent of the Treasury Board (performing in this case the same function as the Comptroller of the Currency in the United States), the bank is ready for business.

The main difference in the matter of obtaining the privilege from the people to carry on the business of banking is that in Canada the subscribed capital must be \$500,000, paid up to the extent of one-half, or \$250,000, and this fact must be proved by the temporary deposit of the actual money with the Treasury Department. If it is contended that a monopolistic element is introduced by making the minimum paid-up capital \$250,000, I have only to point to the varying minima of capital in the National banking system, based upon the population of the city or town where a bank is established. The minimum with us is placed so high because with the privilege to carry on the business of banking is attached the privilege to open branches and to issue a bank note currency not secured by special pledge with the government. In the opinion of many Canadians the minimum is too small.

So much for the statement that banking is less "free" in Canada than in the United States. I think the very term "free banking," about which so much was written in the antebellum days, is a misnomer. A little less of freedom in the ability to create a bank, and a little more knowledge on the part of the people regarding the true function of banking, and its high place in the world of commerce, would be for the public good. What we want is the most absolute evidence, when a bank is created, that its projectors are embarking in a bona-fide venture and have put at risk a sum considerable enough to ensure that fact.

Liability of Shareholders.

In Canada, as in the United States, shareholders in banks are subject to what is known as "double liability."

For the benefit of any who may not understand the phrase, I will quote the section in full:

“In the event of the property and assets of the bank being insufficient to pay its debts and liabilities, each shareholder of the bank shall be liable for the deficiency to an amount equal to the par value of the shares held by him, in addition to any amount not paid up on such shares.”—(Sec. 89.)

I can remember when the practical value of this power to call on the shareholders in the event of the failure of a bank for a second payment to the extent of the subscribed amount of the shares, was doubted by many. Shares were transferred just before failure to men unable to meet such calls and willing to be used in this manner, or shares were found to be held by men of straw who owed a corresponding amount to the bank. Or, again, many of the shareholders were borrowers for amounts far in excess of their holdings in shares, and the failure of the bank precipitated their failure as well, and they were unable to pay. Of course there were always some real investors among the shareholders, but the value of the double liability was a very variable and doubtful quantity. These features have not, as we know, all passed away, but we have done as much as we could to guarantee an honest share list and to prevent the shareholder from escaping his liability.

Banks are not allowed to lend money on their own or the stock of any other Canadian bank, and as the minimum paid-up capital of \$250,000 must be deposited with the Finance Department before a bank commences business, this should ensure a bona-fide capital at the start.

All transfers of shares must be accepted by the transferee. No transfers within 60 days before failure avoid the double liability of the transferrer unless the transferee is able to pay.

A list of the shareholders in all banks is published annually by the government, and this book is eagerly examined by investors to ascertain changes in the share list of banks which might indicate distrust.

As the capital of each bank is large and the number of banks small relatively to the United States, there is, regarding everything connected with the credit of a Canadian bank, an amount of public scrutiny which leads to circumspection in the conduct of bank authorities. Again, the very fact that the capital is large and that the banks have many branches and a more or less national character, causes the stock to be widely held. In the largest banks the share list numbers from 1,800 to 2,000 names.

We still, doubtless, have plenty of bad banking and will always have it. No legislative checks will prevent that, and even a severe public scrutiny will not altogether prevent it; but our banking history since the Confederation of the old provinces into the Dominion in 1867, shows that the double liability has been a most substantial asset, and has done much towards enabling liquidated banks to pay in full. In my own province of Ontario we have the fine record of no instance, save one, since Confederation in 1867, in which all creditors have not been paid in full.

In the case of this one blemish the dividends amounted to 99 $\frac{1}{3}$ cents to depositors, only the unwarrantably

high fees paid to the liquidators causing the dividend to fall below 100 cents. In the short life of this institution almost every sin in the calendar of banking had been committed.

Term of the Charter.

Under the United States national banking system the life of a bank is limited to twenty years from the date of the execution of the particular bank's certificate of organization, but at the expiration of the first, or any succeeding period, the bank, if it elects to do so, may have its corporate existence renewed for the same number of years.

Under the Canadian system the charter of every bank expires at the same time, and the renewal period is only ten years.

I do not intend to discuss the length of the period—most of us think it quite too short. It is the effect of all charters expiring at the same time to which I desire to draw attention.

This condition of things doubtless arose merely from the confederation in 1867 of the provinces which had granted the then existing charters, but which thereupon surrendered their authority over banking institutions to the Federal Government. As the charters granted by the old provinces expired, the banks working under them became institutions subject to the new Federal or Dominion Banking Act, and by its conditions every charter expires at the same time. This insures a complete discussion of the principles underlying the Act, and of the details connected with the working of it, once in ten years.

In the interval we are almost free from attempts by demagogues or ambitious but ill-informed legislators to interfere with the details of our system, but during the session of Parliament preceding the date of the expiry of the charters we have to defend our system from the demagogue, the bank-hater, the honest but inexperienced citizen who writes letters to the press, sometimes the press itself—indeed from all the sources of attack which institutions possessing a franchise granted by the people experience when they come before the public to answer for their stewardship. But while resisting the attacks of ignorance, we are, of course, called upon to answer such just criticism as may arise from the existence of defects in our system developed by the experience of time. Or perhaps, as when the Act was under discussion in 1890, we may see the defects even more clearly than the public, and may ourselves suggest the remedies.

Whatever may be said for or against these decennial battles, the product of the discussion is a Banking Act, improved in many respects by the exchange of opinion between the bankers and the public. The banking system having been subjected to unsparing analysis by an unusually enlightened people—perhaps too democratic in tendency and too jealous of every privilege granted, but anxious to build rather than to destroy—is brought at each period of renewal to a higher degree of perfection.

Banking Principles.

What is necessary in a banking system in order that it may answer the requirements of a rapidly growing country and yet be safe and profitable?

1. It should create a currency free from doubt as to value, readily convertible into specie, and answering in volume to the requirements of trade. In saying this I do not wish to be understood as asserting that banks should necessarily enjoy the right to issue notes. Whether they should or should not issue notes must always, I presume, end in a discussion as to expediency in the particular country or banking system.

2. It should possess the machinery necessary to distribute money over the whole area of the country, so that the smallest possible inequalities in the rate of interest will result.

3. It should supply the legitimate wants of the borrower, not merely under ordinary circumstances, but in times of financial stress, at least without that curtailment which leads to abnormal rates of interest and to failures.

4. It should afford the greatest possible measure of safety to the depositor.

We think in Canada that our system possesses all these qualities, and we are confident that we have a currency perfectly suited to our trade and other requirements. We have not, however, arrived at our present reasonably comfortable condition by any other process than the usual slow development from a past full enough of error and bitter experience.

Historical Sketch.

It is perhaps not generally known that we were among the first in modern times to issue *fiat* paper-money for general circulation. In 1685, in the time of the French régime in Canada, the Intendant could not pay his soldiers. The little struggling colony, after the manner of

all new countries, was an absorbent of money, and France was nearly bankrupt and could afford no aid. So the Intendant, left to his wits alone and having a helpless people to deal with, cut playing cards into small pieces, wrote thereon his promises to pay, accompanied by the seal of France, and thus led the way in North America in this seductive method of paying debts.

For the next thirty years this was the money of Canada. Although always written, because the people would not have accepted printed promises to pay, the volumes rose to about \$20 per head, when the usual results of *fiat* money followed. It was compromised, and the Government promised never to repeat the experiment.

The poor colony, left with no regular currency, struggled for a time, but in 1729, at the request of the people, card money was issued again. They had now some experience, but did not understand how to draw lessons from it, and the amount issued was so excessive that when the British took Quebec, and assumed the Government of Canada, one of the most troublesome features in the settlement with France was the arrangement for the retirement of this currency.

It would have been well if this complete exposition, although on such a small scale, of the unsoundness of *fiat* money, had served for all North America. Mr. Sumner says there was a bank in Massachusetts as early as 1686 which may have issued notes, but there is a story in this connection so picturesque that I hope it is true. A couple of Massachusetts fur traders are supposed to have visited Canada a few years after the card money first appeared, and to have reported at home the prosperity re-

sulting from the experiment, and so when the military expedition against Canada was organized in 1690, what more natural than that Massachusetts should have paid the cost in the first of that currency which in its final stages of collapse has given our language that expressive phrase, "not worth a continental"?

We were even smaller, relatively, in population then than we are now, yet apparently you of the United States did not hesitate to adopt a very bad feature in our development. If we have anything today in our financial conditions worth your attention, I hope it will not the less merit your approval because the development is on such a small scale. Sound or unsound principles are perhaps more easily detected when a system has not become complicated beyond the capacity for analysis of the ordinary individual.

I will now, in as few words as possible, finish the historical sketch which is necessary to the clear understanding of our currency and banking as it exists at present. Shortly after you organized a bank in Philadelphia in 1781 and another in New York in 1784, the merchants of Quebec and Montreal began to agitate for a bank of issue. In those days a bank without the power to issue notes was of little use; but the people of Canada having very strong opinions on this subject, the attempt was a failure, although in 1792 a private bank of deposit resulted. The merchants tried again with the same result in 1807-8. But during the war of 1812 the Government found it necessary to issue some kind of paper money, and an Army Bill Office was created. These were the first paper notes put in circulation in Canada under Brit-

ish authority, and as they were paid in full, the people must have been at last convinced that all paper money was not bad. In the Province of Nova Scotia, not then joined with us in the Dominion of Canada as it is now, Treasury notes were also issued in 1812. At the same time banking was growing rapidly in Great Britain and the United States, and in 1817 our first joint stock bank was created—that great institution of which we are all so proud, and which has done its share in making Chicago what it is today—the Bank of Montreal.

From 1817 to 1825, two banks were established in Lower Canada (Quebec), and one each in Upper Canada (Ontario), New Brunswick and Nova Scotia, all now doing business except one.

The Condition at Confederation.

I will not attempt to follow the course of banking in the old provinces, but it is necessary to indicate the condition of banking and currency at the time of the Confederation of the provinces into the Dominion of Canada in 1867. There were thirty-nine charters, but only twenty-seven banks doing business. The charters expired at various dates from 1870 to 1892, and varied in accordance with the views regarding banking in the different provinces. In Upper and Lower Canada (Old Canada), shareholders were liable for double the amount of their stock, except that there was one bank *en commandite*, the “principal partners” having unlimited personal liability. In most cases notes could be issued equal to the paid-up capital *plus* specie and Government securities held. In New Brunswick charters had been granted without the

double liability, but the principle was being insisted on in renewals, while in Nova Scotia in the opinion of some there was no double liability. In Old Canada and Nova Scotia, as a rule, total liabilities were restricted to three times, and in New Brunswick to twice the amount of capital. There was also one bank with a royal charter, head office in England, and shareholders not under double liability. The situation was further complicated by the "Free Banking Act," under which notes could be issued secured by deposit of Government debentures, and by the legal tender issues of the Governments of Old Canada and Nova Scotia. In 1866-67 two of the largest banks in Upper Canada failed, resulting in a very severe financial crisis.

Under these conditions, and after tentative legislation in 1867 and 1870, the first general Bank Act of the Dominion was passed in 1871 (34 Vict., c. v.) It confirmed the special features in the bank working under a royal charter, and that with "principal partners" personally liable, and it will be understood in any statements hereafter regarding banks as a whole that these institutions are not referred to. As charters of other banks expired they were renewed under the Dominion Act. The first Act extended all charters for ten years, which practice has been followed thus far. There were various amendments during the first few years, but since then changes have been infrequent, except at the regular revisions in 1880 and 1890. The Act hereafter referred to is that assented to May, 1890, and which came into force July, 1891. (53 Vict., c. xxxi.)

Note Issues.

In the successive Banking Acts of the Dominion Parliament banks have been empowered to issue circulating notes to the extent of the unimpaired paid-up capital. By the first Act the note-holders had no greater security than the depositors and other creditors. At the renewal of charters in 1880, the circulating note was made a prior lien upon all assets; and at the renewal in 1890 the banks, at their own suggestion, were in addition required to create in two years a guarantee fund of 5 per cent. upon their circulation, to be kept unimpaired, the annual contribution, however, if the fund is depleted, to be limited to 1 per cent. The fund is to be used whenever the liquidator of a failed bank is unable to redeem note issues in full after a lapse of sixty days. Notes of insolvent banks are to bear 6 per cent. interest from the date of suspension, until the liquidator announces his ability to redeem. Banks are also required to make arrangements for the redemption at par of their notes in the chief commercial cities in each of the provinces of the Dominion.

The change in 1880 was caused by the failure of a small bank with a circulation of about \$125,000, paying all creditors, note-holders included, only 57½ per cent. The change in the Act of 1890 was due to the demand for a currency which would pass over the entire Dominion without discount under any circumstances. The history of banking in Canada since Confederation shows no instance in which a depletion of such a guarantee fund would have occurred. Fines from \$1,000 to \$100,000 may be imposed for the over-issue of notes. The pledging of notes as security for a debt, or the fraudulent issue of notes in any shape, renders all parties participating

liable to fine and imprisonment. As the crown prerogative to payment in priority to other creditors had been set up on behalf of both Dominion and Provincial Governments, the Act places the claims of the Dominion second to the note issues, and those of the provinces third. Notes of a lesser denomination than \$5 may not be issued, and all notes must be multiples of \$5. Notes smaller than \$5 are issued by the Dominion Government.

Distinctive Features.

The distinctive features, therefore, of our bank note issues are:—

(a) They are not secured by the pledge or special deposit with the Government of bonds or other securities, but are simply credit instruments based upon the general assets of the banks issuing them.

(b) But in order that they may not be less secure than notes issued against bonds deposited with the Government, they are made a first charge upon the assets.

(c) To avoid discount for geographical reasons each bank is obliged to arrange for the redemption of its notes in the commercial centres throughout the Dominion.

(d) And, finally, to avoid discount at the moment of the suspension of a bank, either because of delay in payment of note issues by the liquidator or of doubt as to ultimate payment, each bank is obliged to keep in the hands of the Government a deposit equal to five per cent. on its average circulation, the average being taken from the maximum circulation of each bank in each month of the year. This is called the Bank Circulation Redemption Fund, and should any liquidator fail to redeem the note

of a failed bank, recourse may be had to the entire fund if necessary. As a matter of fact, liquidators almost invariably are able to redeem the note issues as they are presented, but in order that all solvent banks may accept without loss the notes of an insolvent bank, these notes bear six per cent. interest from the date of suspension to the date of the liquidator's announcement that he is ready to redeem.

The Basis of Elasticity.

I have already stated, in attempting to outline what is necessary in a banking system in order that it may answer the requirements of a rapidly growing country, that "it should create a currency free from doubt as to value, readily convertible into specie, and answering in volume to the requirements of trade." In an admirable paper on "The Note Circulation," read in December, 1889, before the Institute of Bankers, in London, England, by Mr. Inglis Palgrave, only two requisites in a note circulation are directly stated as essential: "First, that it should be completely secured. Second, that it should be readily convertible into metallic money." But the discussion which follows bears directly upon a third requisite, that it should answer in volume to the fluctuating requirements of trade, in a word that it should be elastic. This last is a much less important point, however, in England than in North America.

In discussing bank issues I will reverse the order in which the three requirements are placed in Mr. Palgrave's paper and the ensuing discussion, and take up the question of elasticity first. I shall not attempt to discuss

the many and conflicting views held regarding paper money, its use and abuse, and whether there is any scientific basis for its issue; but I shall endeavor to show to what extent it seems possible for note issues in North America to have a scientific basis with regard to elasticity. In Canada, as in the United States, the resulting difference in business transactions, after checks and all other modern instruments of credit have been used, is almost entirely paid in paper money. It is therefore of the greatest importance that the amount of this paper money existing at any one time, shall be as nearly as possible just sufficient for the purpose. That is, that there shall be a power to issue such money when it is required, and also a power which forces it back for redemption when it is not required.

I may, therefore, I think, safely lay it down as a principle that: (1) There should be as complete a relation as possible between the currency requirements of trade and whatever are the causes which bring about the issue of paper money; (2) and, as it is quite as necessary that no over-issue should be possible, as that the supply of currency should be adequate, there should be a similar relation between the requirements of trade and the causes which *force notes back* for redemption.

Now, certainly, one of the *causes* of the issue of bank notes is the profit to be derived therefrom, and it is clear that an amount sufficient for the needs of trade will not be issued unless it is profitable to issue. Likewise it is clear that it should not be possible to keep notes out for the sake of the profit if they are not needed.

Currency and Trade Requirements.

In Canada, bank notes, as we have seen, are secured by a first lien upon the entire assets of the bank, including the double liability, the security being general and not special—not by the deposit of Government bonds, for instance. Therefore it is clear that it will always pay Canadian banks to issue currency when trade demands it. Because bank notes in Canada are issued against the general estate of the bank, they are subject to daily *actual* redemption; and no bank dares to issue notes without reference to its power to redeem, any more than a solvent merchant dares to give promissory notes without reference to his ability to pay. The presentation for actual redemption of every note not required for purposes of trade, is assured by the fact that every bank seeks by the activity of its own business to keep out its own notes, and therefore sends back daily for redemption the notes of all other banks.

This great feature in our system as compared with the National Banking System,* is generally overlooked, but

* It may be well to explain that while the note issued by a United States National Bank is nominally redeemable at the counter of the bank issuing it, it is practically not so redeemed, nor does actual redemption by the Bank take place, unless by the accident of the note being paid in across its counter along with the issues of other National Banks.

If a National Bank wishes to recover from the Government the bonds deposited as security for its notes, it is not required to return the actual notes issued, but can withdraw its bonds on the deposit of the necessary amount in any lawful money.

The National Bank currency is issued by several thousand banks, and from the time when a note is first put in circulation it practically loses its specific character and becomes a mere part of the aggregate of such currency. It is true each bank keeps with the Government a fund amounting to five per cent. of its circulation, out of which the Government redeems any notes which may be presented, but the chief use of this fund is to rid the currency of mutilated, dirty, or worn out notes.

Although not actually a legal tender, each National Bank is required to accept them for all debts due, except duties on imports, and may pay

it is because of this daily actual redemption that we have never had any serious inflation of our currency, if indeed there has ever been any inflation at all. Trade, of course, becomes inflated, and the currency will follow trade, but that is a very different thing from the existence in a country of a great volume of paper money not required by trade.

I will not discuss at length this quality of elasticity in our system, because it is generally admitted. But some critic may endeavor to show that similar quality might be given to a currency secured by Government bonds. In the older countries of the world it may be sufficient if the volume of currency rises and falls with the general course of trade over a series of years, and without reference to the fluctuations within the twelve months of the year. In North America it is not enough that the volume of currency should rise and fall from year to year.

In Canada we find that between the low average of the circulation during about eight months of each year and the maximum attained at the busiest period of the autumn and winter, there is a difference of twenty per cent., the movement upward in the autumn and down-

them out for all Government expenditures except interest on the public debt. What follows from this is obvious. So long as there is no distrust regarding the ability of the United States Treasury to redeem, redemption is not sought by anyone. It is to be remembered that in the United States (as in Canada) gold practically does not circulate as money. Apart from distrust no bank would desire to encumber itself with gold as compared with United States notes or United States National Bank notes.

When gold is wanted for export it is obtained at the moment and almost invariably from the one source—the Government Treasury—in exchange for Treasury certificates representing gold previously lodged or for United States legal tender notes.

ward in the spring being so sudden that without the power in the banks to issue, in the autumn serious stringency must result, and without the force which brings about redemption in the spring there must be plethora. As a matter of fact it works automatically, and there is always enough and never too much.

Bond-Secured Currency.

If our currency were secured by Government bonds the volume in existence at any one time would be determined by the profit to be gained by the issue of such bond-secured currency. It would, therefore, be necessary to fix a maximum beyond which no currency could be issued, but as such an arbitrary limit would be mere legislative guess work, it would be productive of the evils incident to all efforts to curb natural laws by legislation. As we all know, when the National Bank charters were offered by the Federal Government to the State Banks, the bonds of the United States bore 5 to 6 per cent. interest, and the business of issuing currency against such bonds was so profitable that a maximum such as I have referred to was fixed, with an elaborate provision stating how the banking charters were to be distributed as to area, in order that each State or section of country might have a fair share. This was followed by several adjustments, the last limit being \$354,000,000, no one being satisfied with the interference with free banking, and the cry of monopoly being frequently heard. Subsequently the maximum was abandoned; indeed the business of issuing notes against Government bonds had become unprofitable and there was no longer any fear of inflation.

The condition in the United States under which the issue of currency was unduly profitable, and the fear of inflation was present, did not actually last many years, but it lasted long enough to create in the people a hatred of banks which does not seem yet to have quite passed away. The condition which followed showed, it seems to me, conclusively the unsoundness of the system in the matter of providing an elastic currency, a currency *at all times* adequate in volume. The currency wants of the country increased with the great increase in population, but the volume of National Bank currency decreased because by the repayment of the national debt and the improvement in the national credit the bonds which remained outstanding yielded so low a rate of interest as to make the issue of National Bank notes unprofitable. The Comptroller's statement shows that the volume of circulation secured by United States bonds, which ranged from 1866 to about 1880 at from about \$300,000,000 to \$350,000,000, has declined until the amount subject to redemption by the banks is now only about \$130,000,000. The moral of this is plain. If the Government bonds yield such a low rate of interest as to make it unprofitable to issue currency, banks will not provide sufficient currency for the wants of the country. It was this unfortunate contraction which to a great degree made it possible for the Bland Act silver issues, from 1878 to 1890, to create so little financial disturbance.

I hope I have made it clear that if the business of issuing currency against Government bonds were profitable, too much currency would be the result; and if it were unprofitable, too little would be issued. We would require to have a condition of things under which the profit of

issuing notes would at all times bear an exact relation to the amount of currency required by the country, the profit therefore changing not only as the currency rises and falls over a series of years, but at the time of the sharp fluctuations within each year, already referred to. No such relation, however, could very well exist with an issue based upon Government bonds.

Convertibility and Security.

The next quality in a currency to be considered is, "That it should be readily convertible into metallic money." I do not propose to discuss this at length. As I have pointed out, our safety lies in the actual daily redemption which arises out of our circulation being generally instead of specially secured. This is the best possible safeguard against suspension of specie payments. The United States National Banking System was created during a suspension of specie payments, and doubtless would never have been heard of but for that fact.

My last point is that placed first by Mr. Palgrave in his discussion with the English bankers: "That the currency should be completely secured." I do not know whether we are to understand also that a note must pass throughout the entire country without discount for any reason, but I include that in the point to be discussed. Now, I contend that it is better for the reasons given, that bank issues should be based for security on the general assets of the bank, with a prior lien to other creditors; and also that taking the world as a whole, such notes will be actually safer because the effect of a system of notes secured by Government bonds—a loan forced by the Government, practically—must sometimes be to produce

national bankruptcy, as in the case of the Argentine Republic. Still, I cheerfully admit that the United States National Banking System has taught us that a currency issued by banks may be made to pass over the entire area of a great nation without discount. This is a great quality in currency. To the ordinary individual, who knows and cares little about banking except as it affects the bank note he happens to carry in his pocket, it appears to be the one quality necessary.

In Canada, experience has shown that as long as the notes are a prior lien on the assets of the bank, including the double liability, ultimate loss is scarcely possible—has not at all events occurred as yet. To secure their circulation at the close of last year the banks had \$10.19 of assets against every dollar of currency. It has been pointed out, however, that the assets are not aggregated against the circulation, and that all banks are not as secure as these figures seem to show. But the security in this respect, in regard to each bank, varies little from the general average, the lowest percentage being 6.18 as against the general average of 10.19. The lowest percentage applies to but two or three small banks, none others falling below about \$8 for every dollar of circulation. To this we have added the five per cent. guarantee fund applicable in its entirety to meet the notes of any individual bank.*

* *Financial Facilities for Marketing of Farm Products.*—By the Bank Act, chapter 29 R. S. 1906, it was provided that in the case of the banks to which the act applied the total amount of the notes in circulation at any time should not exceed the amount of the unimpaired paid-up capital. Amendments to this act made by chapter 7 of the session of the Dominion Parliament of 1908 provide that during the usual season of moving the crops, viz. from October 1 to January 31, the banks may exceed this limit by issuing notes to an amount not exceeding 15 per cent

The Borrower and the Branch System.

In discussing the banking systems in older countries, the borrower is not often considered. Men must borrow where and how they can, and pay as much or as little for the money as circumstances require. I believe too strongly in the necessity for an absolute performance of engagements, to think that it is a requirement in any banking system that it shall make the path of the debtor easy. Every banker should discourage debt, and keep before the borrower the fact that he who borrows must pay or go to the wall. But in America the debtor class is apt to make itself heard, and I wish to show what our branch system does for the worthy borrower as compared with the United States National Banking System.

In a country where the money accumulated each year by the people's savings does not exceed the money required for new business ventures, it is plain that the system of banking which most completely gathers up these savings and places them at the disposal of the borrowers, is the best. It is to be remembered that this involves the savings of one slow-going community being applied to another community where the enterprise is out of proportion to the money at command in that locality. Now in Canada, with its banks with forty and fifty branches, we see the deposits of the saving communities applied directly to the country's new enterprises in a manner

of the combined unimpaired paid-up capital and reserve or rest fund. While its notes in circulation are in excess of the unimpaired paid-up capital any bank must pay interest at such rate not exceeding 5 per cent. per annum as is fixed by the Governor in Council on the excess notes in circulation from day to day, the interest so paid to form part of the consolidated revenue fund. The object of these amendments is to provide additional financial facilities for the quick transportation of Canadian farm products to the markets of the world. Special provisions apply to the Bank of British North America.

nearly perfect. The Bank of Montreal borrows money from depositors at Halifax and many points in the Maritime Provinces, where the savings largely exceed the new enterprises, and it lends money in Vancouver or in the Northwest, where the new enterprises far exceed the people's savings. My own bank in the same manner gathers deposits in the quiet unenterprising parts of Ontario, and lends the money in the enterprising localities, the whole result being that forty or fifty business centers, in no case having an exact equilibrium of deposits and loans, are able to balance the excess or deficiency of capital, economizing every dollar, the depositor obtaining fair rate of interest, and the borrower obtaining money at a lower rate than borrowers in any of the colonies of Great Britain, and a lower rate than in the United States except in the very great cities in the East. So perfectly is this distribution of capital made, that as between the highest class borrower in Montreal or Toronto, and the ordinary merchant in the Northwest, the difference in interest paid is not more than one to two per cent.

In the United States, as we know, banks have no branches. There are banks in New York and the East seeking investment for their money, and refusing to allow any interest because there are not sufficient borrowers to take up their deposits; and there are banks in the West and South which cannot begin to supply their borrowing customers, because they have only the money of the immediate locality at their command, and have no direct access to the money in the East, which is so eagerly seeking investment. To avoid a difficulty which would otherwise be unbearable, the western and southern banks sometimes rediscount their customers' notes with

banks in the East, while many of their customers, not being able to rely on them for assistance, are forced to float paper through eastern note-brokers. But, of course, the western and southern banks wanting money, and the eastern banks having it, cannot come together by chance, and there is no machinery for bringing them together. So it follows that a Boston bank may be anxiously looking for investments at four or five per cent., while in some rich western state ten and even twelve per cent. is being paid. These are extreme cases, but I have quoted an extreme case in Canada, where the capital marches automatically across the continent to find the borrower, and the extra interest obtained scarcely pays the loss of time it would take to send it so far, were the machinery not so perfect.

Supplying Local Wants.

As I have indicated, it should be the object of every country to economize credit, to economize the money of the country so that every borrower with adequate security can be reached by some one able to lend, and the machinery for doing this has always been recognized in our banks. That is surely not a perfect system of banking under which the surplus money in every unenterprising community has a tendency to stay there, while the surplus money required by an enterprising community has to be sought at a distance. But if by paying a higher rate of interest, and seeking diligently, it could always be found, the position would not be so bad. The fact is, that when it is most wanted, distrust is at its height, and the cautious Eastern banker buttons up his pocket. When there is no inducement to avert trouble to a com-

munity by supplying its wants in time of financial stress, there is no inclination to do so. The individual banks, East or West, are not apt to have a very large sense of responsibility for the welfare of the country as a whole, or for any considerable portion of it. But the banks in Canada, with thirty, forty or fifty branches, with interests which it is no exaggeration to describe as national, cannot be idle or indifferent in time of trouble, cannot turn a deaf ear to the legitimate wants of the farmer in the prairie provinces, any more than to the wealthy merchant and manufacturer in the East. Their business is to gather up the wealth of a nation, not of a town or city, and to supply the borrowing wants of a nation.

There was a time in Canada, about twenty years ago, when some people thought that in every town, a bank, no matter how small, provided it had no branches, and had its owners resident in the neighborhood, was a greater help to the town than the branch of a large and powerful bank. In those days, perhaps, the great banks were too autocratic, had not been taught by competition to respect fully the wants of each community. If this feeling ever existed to any extent it has passed away. We are, in fact, in danger of the results of over-competition. I do not know any country in the world so well supplied with banking facilities as Canada. The branch system not only enables every town of 1,000 or 1,200 people to have a joint stock bank, but to have a bank with a power behind it generally twenty or fifty times greater than such a bank as is found in towns of similar size in the United States would have.

But one of the main features of the branch system is

connected intimately with our power to issue notes based upon the general assets of the bank. When the statement of a large Canadian bank is examined by an American banker, the comparatively small amount of actual cash must be noticeable. He will notice that the bank is careful to have large assets in the United States which may be taken back to Canada in times of financial strain there, and large assets in convertible shape at home, but having regard to actual cash as the machinery for carrying on the business at the counter, how can a bank with forty or fifty branches get along with so little cash? The simple answer is that the tills of our branches are filled with notes which are not money until they are issued, and which, therefore, save just that much idle capital and just that much loss of interest.

The Depositor.

The legal position of the depositor is about the same in both countries. The note-holder's claim is preferred to his. We must not, however, expect that any government will relieve a depositor from the necessity of using discretion as to where he places his money. Governments never have done and never can do that. Men must look around, and after measuring the security offered, judge where they should entrust their money. It is perhaps easier for a man with limited intelligence to make a selection if the banks have large capital and are of a semi-national importance, provided, of course, the basis of the system is not unsound, as in Italy and Austria. In Canada, we do not borrow from abroad, although we would not object to do so if money could be obtained at low enough rates of interest; our banks have large

capital and small deposits relatively, and we do not lend on real estate. The Government statement at 31st December, 1892, shows that before depositors having claims amounting to \$180,000,000 can suffer, shareholders must lose in paid-up stock and double liability as much as \$126,000,000 and \$25,000,000 of surplus funds, in all \$151,00,000. There is probably no country in the world where greater security is offered to depositors.

When our charters were under discussion two or three years ago, I had occasion to defend our system, and I have copied freely from a pamphlet I wrote at that time. I must not, therefore, omit to repeat a statement made then, which might excite criticism more readily, now that the banking system of Australia has collapsed. In making a comparison between individual banks with small capital, and banks with branches and large capital, I urged that:—

“The probability of loss to the depositor in one bank “with several millions of capital, is less than the probability of loss to *some* of the depositors in ten or twenty “small banks, having *in the aggregate* the same capital “and deposits as the large bank.”

The retort will be quickly made:—“But if the large “bank fails, the ruin will be just so much the more wide- “spread.”

This is quite true, but while it appears to be an answer to the point, it is not. If the conditions of two countries are about the same and the ability of the bankers and the principles of the banking system are in other respects equally excellent, it must still remain true that the *pro-*

bability of loss to the depositors in one or more of the ten or twenty small banks is greater than the *probability* of loss to any of the depositors in the one large bank.

Competitors for Deposits

There are some features in our deposit business which may be interesting to Americans. There are perhaps not half a dozen savings banks, as the term is understood in North America, in the whole of Canada, and those only in the largest cities, and there is really little need for the existence of any. The Government carries on the Post Office Savings Bank system, copied in some respects from Great Britain. The safeguards always necessary when a government undertakes to carry on a regular business are so many and so tedious that the leading banks do not find it necessary to allow as high a rate of interest as the Government.

In addition to the Government we have as competitors for deposits the companies authorized to lend on real estate. Most of those companies, however, now borrow only on debentures at fixed periods. Some of this money is borrowed in Great Britain, but much of it is obtained at home. I may say here that while, as with you, banks have fortunately no power to lend on real estate, the restriction is perhaps no longer necessary, as land banking and mercantile banking are clearly separated in the minds of every intelligent man of business in Canada. And as the banks do not buy paper made for the purpose of obtaining money, as you do in the United States, but loan only to their own customers, supplying their entire wants, and seeing that the money is to make or move some product about to be sold, we do not so often discover

that we have unwittingly been booming a corner lot, building a mill, or helping to float a company.

Interest on Deposits.

Returning from this digression to the subject of deposits, I have to deal with the objection that we pay interest on deposits. I am aware that many eminent bankers in the United States have expressed the opinion very decidedly that it is inconsistent with sound banking to pay interest on deposits. On the other hand, bankers in Great Britain and in Canada would say that any system of banking which will not afford interest on *certain classes* of deposits is unsound. I must hold with the latter opinion. It is entirely a question of the character of the deposit.

Well-managed Canadian banks do not give interest on active current accounts. But all Canadian banks issue interest-bearing receipts, and, as you will have gathered, all, or almost all, have savings departments. These deposits, great or small, are in the nature of investments by the depositor, and are not like the temporary balances of a merchant. They are entitled to interest. It is of vital importance to every nation that its people should have the saving habit. It is also of vital importance that all the money disbursed for labor, or to the farmer or otherwise, should find its way back as early as possible into the channels of commerce. Will it find its way back unless interest is offered for it?

It will be said that the ordinary savings bank is the proper organization to take care of such deposits. So far as the very large cities are concerned this may be

quite true. But is the ordinary savings bank an effective instrument for collecting the miscellaneous savings of the smaller communities? I think not. Be this as it may, we by our branch system, with the savings department added, provide in small towns where the ordinary savings bank is impossible, a secure place of deposit, and the quite large deposits of our leading banks are certainly the accumulation of tens of thousands of such depositors.

Banks are required once a year to make a return to the Government, which is published as a blue-book, of all unclaimed dividends, deposits, or other balances of five years' standing.

Bank Inspection.

We have in Canada no public bank examiner as in the United States, nor are our annual statements audited as in Australia. When the audit system was proposed we resisted because we felt that it pretended to protect the shareholders and creditors, but did not really do so, and if the audit did not really protect it seemed better that shareholders and creditors should not be lulled by imaginary safeguards, but be kept alert by the constant exercise of their own judgment. So far as we have ever discussed with the Government the question of public bank examiners, apart, of course, from denying the necessity for anything of the kind, we have confined our arguments to pointing out the impracticability when banks have many branches. This may in the minds of some constitute an argument against branch banking. I simply state the facts. But we say that, while it may

be very well—if it really does lessen bank failures—to have public examiners for the protection of the people, it is much more necessary with branch banking to have bank examiners, or as we call them, inspectors, on behalf of the executive of the bank. And I am aware that the practice is growing in the United States where everything is under one roof.

When it comes to the quality of the work done by our inspectors, I would not admit that anything could well be better. In my own bank it takes five trained men an entire year to make the round of all the branches. Some of these officers devote themselves to the routine of the branches, verifying all cash, securities, bills, accounts, etc., testing the compliance of officers with every regulation of the bank, reporting on the skill and character of officers, etc., while the chiefs devote themselves to the higher matters, such as the quality of the bills under discount, loans against securities, indeed the quality and value of every asset found at the branch. They also deal with the growth and profitableness of the branch, its prospects, etc. Now all these matters have already passed the judgment of the branch manager, and the more important have been referred to and approved by the executive, so that it may be said that three different judgments are passed upon the business of the branch. But it will be said that the chief inspector may be under the sway of the executive and his reports a mere echo of the opinion of the latter. This is quite true—the reports may be dishonest. We do not tell the public that the inspector is specially employed for its protection. He, like the general manager, is merely a part of the bank's machinery for conducting business and the public is left to judge of

the bank by its chief officers, its record in the past, its *entourage*.

Our banks make a very full return to the Government at the close of each month. These are published during the month, and are keenly discussed by the public. The Deputy Minister of Finance has the power to call for statements of any character at any time.

In the larger banks the officers insure their fidelity by funds established within the bank. Many of the banks also have funds for the superannuation of their officers.

Reserves.

With regard to the question of reserves, we hold with the majority of the banking world outside of the United States against fixed reserves. With us no reserves are actually required by law. The cash reserve in gold and legal tenders has averaged for some years about ten per cent., but it must be remembered that our till money is almost entirely supplied by the bank note circulation. The smaller banks keep their available resources in securities, call loans at home, and balances with their bankers in Montreal and New York. The large banks, as you know, in addition to their securities and call loans in Canada, lend largely on easily liquidated securities in the United States.

The change-making notes, those of denominations less than \$5, are issued by the Dominion Government. The settlements at the clearing houses are made in legal tenders, notes of large denominations being issued by the Government for the purpose. Forty per cent. of whatever cash reserve a bank may keep must be in Dominion legal tenders, a provision entirely in the interest of the

Government, and so unworthy of our otherwise creditable system that we must hope our Government will some day relieve us of such an unscientific arrangement.

Chartered Banks of Canada.

The statistics of chartered banks in Canada show that in the 41 years 1868-1908 the capital paid up rose from \$30,507,447 to \$96,147,526, the liabilities from \$45,144,854 to \$762,077,184 and the assets from \$79,860,976 to \$941,290,619. The totals on deposit rose during the same period from \$33,653,594 to \$658,367,015 and the notes in circulation from \$9,350,646 to \$71,401,697. The deposits in banks by the public in Canada payable on demand increased from \$104,424,203 in 1902 to \$169,721,755, and payable after notice from \$244,062,545 to \$406,103,063. The total deposits by the public payable on demand and after notice increased from \$348,486,748 in 1902 to \$575,824,218 in 1908, being \$62.93 per head of the population in the first of these years and \$82.92 in the second. Including deposits elsewhere than in Canada and balances due to Dominion and Provincial Governments, the whole amount of deposits in the banks increased from \$390,370,493 in 1902 to \$658,367,015 in 1908. These figures are in each case averages computed from the monthly returns. The assets at the end of December 1908 aggregated \$1,001,352,290.

**STATEMENT SHOWING CONDITION OF THE THIRTY-THREE CHARTERED
BANKS OF CANADA, SEPTEMBER 30, 1909.**

RESOURCES.

Specie.....	\$24,476,115
Dominion notes.....	66,924,455
Deposits with Dominion government for security of note circulation.....	4,589,540
Notes and checks of other banks.....	36,476,053
Loans to other banks in Canada, secured, including bills rediscounted.....	4,528,018
Deposits with and balances due from other banks in Canada.....	8,899,299
Balances due from agencies of the bank, or from other banks or agencies in the United Kingdom.....	12,121,278
Balances due from agencies of the bank, or from other banks or agencies elsewhere than in Canada and the United Kingdom.....	33,010,619
Dominion and provincial government securities.....	11,964,292
Canadian municipal securities, and British or foreign or colonial public securities other than Canadian.....	23,307,111
Railway and other bonds, debentures, and stocks.....	52,679,288
Call and short loans on stocks and bonds in Canada.....	58,124,620
Call and short loans elsewhere than in Canada.....	131,634,384
Current loans in Canada.....	560,206,621
Current loans elsewhere than in Canada.....	32,961,183
Loans to the government of Canada.....	0
Loans to provincial governments.....	2,385,098
Overdue debts.....	7,473,439
Real estate other than bank premises.....	1,685,475
Mortgages on real estate sold by the bank.....	528,494
Bank premises.....	20,344,993
Other assets.....	11,090,109
Total.....	1,107,371,570

LIABILITIES.

Capital stock.....	97,596,901
Reserve fund.....	75,937,663
Notes in circulation.....	79,207,441
Balance due to Dominion government after deducting advances for credits, pay lists, etc.....	5,730,276
Balance due to provincial governments.....	17,977,103
Deposits by the public payable on demand in Canada.....	239,967,052
Deposits by the public payable after notice or on a fixed day in Canada.....	474,103,799
Deposits elsewhere than in Canada.....	76,556,786
Loans from other banks in Canada, secured, including bills rediscounted.....	5,137,386
Deposits made by and balances due to other banks.....	6,072,405
Balances due to agencies of the bank, etc., in the United Kingdom.....	3,803,118
Balances due to agencies of the bank or other banks or agencies elsewhere than in Canada and the United Kingdom.....	4,210,628
Other liabilities.....	9,911,247
Excess of resources.....	213,159,765
Total.....	1,107,371,570

CHAPTER XII.

BANK CREDITS.

BY JAMES G. CANNON.*

In the year 1892 there were not more than a half-dozen credit departments in as many banks in the United States, and during the entire period of the existence of the American Bankers' Association, from 1875 until that date, the subject of "Bank Credits" had never been discussed in a practical way by its members. Since that time, however, the subject has come up for discussion before many state bankers' associations throughout the country, and the introduction of credit departments in banks has become very general.

On February 9, 1895, the executive committee of the New York State Bankers' Association adopted resolutions recommending to its members "that they request borrowers of money from their respective institutions to give them written statements over their signatures of their assets and liabilities, in such form as the committee on uniform statements of the various groups might recommend." Acting upon these resolutions, nearly all of the groups of the New York State Bankers' Association adopted uniform statement blanks, and the example set by that association has been followed by many associations in other states.

* Vice-president of the Fourth National Bank, New York City.

In 1898, the National Association of Credit Men, a large and powerful organization of nearly 3,000 members, after a year's investigation of the subject, adopted uniform statement blanks which have ever since been widely employed.

On September 7, 1899, the American Bankers' Association, in convention assembled at Cleveland, Ohio, adopted a uniform property statement blank, to be supplied to its members, and thus placed the stamp of its approval upon the credit department for banks, at the same time instructing its secretary to set up in his office a model department, and to furnish information to its members regarding the working of the same.

These efforts were practically the beginning of credit research, and as we trace the subject during the past twelve years and note the growth of these methods and the many difficulties which have been overcome, we certainly feel that something has been gained by the agitation and discussion of bank credits, and much good has been accomplished.

The Laws Governing Credit.

In an address in June, 1896, at the organization of the National Association of Credit Men, I stated: "Credit can hardly be classed among the sciences, and certainly it cannot be said to be an exact science, because it is not governed by any definite, fixed laws." But after years of study of this subject, I am beginning to feel that there are certain definite, fixed laws governing credit, and I am prepared to take a step forward to-day, designating it *credit science*, and I hope to be able to show some of its principles, its mechanism, and its guiding rules.

It is evident to students of financial affairs that there has been a gradual change of method in the buying and selling of commercial paper from that which obtained in former times. Borrowers no longer confine themselves to one place, but go where funds can be produced to the greatest advantage. Merchants in the smaller towns go away from home to borrow money, and bankers in smaller cities go away from home to procure investments. Often bankers do not feel that they can break the rate locally, but it frequently happens that they will send to the large money centers and buy the paper of their home merchants at a lower rate than they would feel that they could take the note for direct. One-eighth per cent will take many a business man from home for his accommodation. The practice is growing for the banks in larger cities to buy commercial paper for their correspondents and in the face of these changes in method it becomes more and more imperative for bankers who handle commercial paper, and who are located in the large money centers, to be fully informed in the widest measure upon the credit of borrowers.

We have noted the beginnings of credit science; we have briefly traced its interesting and rapid development during the past twelve years, and we have marked the changes in methods which are calling for constantly improved ways and means of credit research. Let us take the measure of the credit science of to-day in a few words before we consider the problems and prospects of the future.

Statements from Borrowers.

The corner-stone of credit science may be said to be the requiring from borrowers of statements of the con-

ditions of their affairs. This has now become an accepted custom in the relation between banks and borrowers on commercial paper. It has come to be recognized that the practice is of value to both the bank and the borrower, and this may be considered the reason for its success. Furthermore, the making of statements oftentimes renders concerns themselves aware of weaknesses in their methods of operation, financial practices and results of business. The banker, having a substantial interest in the success of the borrower, may frequently give wholesome advice or timely warning from his wide experience in commercial affairs and his foresight in monetary matters.

There is a distinct parallel in the results that have worked out from the practice of giving statements, to the results with which we are familiar in the methods of the national banking system. Here statements of conditions and bank examinations have resulted in wise improvement in our methods, in wholesome safeguarding of our funds, in conservative financing, and in general advantage.

Again, there is a parallel in the results which have developed from the mutual relations of manufacturers and the factory mutual insurance companies. Here the companies called for improvements in buildings and equipment, which have rendered fire a remote contingency. Whoever doubts the joint interest of such a movement has never experienced the paralyzing effect which a fire has upon the affairs of any concern. The statement of condition has come to stay, and is fundamental in credit matters.

The Credit Department.

But if the statement is the foundation of the credit structure, the credit department may be considered to be the superstructure. This division of the bank's operating mechanism may be said to be the clearing-house for credit information, the headquarters for credit analysis, the storehouse of facts relating to those who are commercial borrowers of the bank's money. Our credit men are the watchdogs of the bank's risks and the guardians of the investments made for its correspondents. The department must be manned by our most faithful, reliable, intelligent, tactful men, who must be capable of infinite pains, of inexhaustible patience, and of absolute loyalty. Their eyes and ears must be open to every contingency that no sign may go unheeded. They are compelled to walk in the ruts of routine and yet be pathfinders constantly. No man who works mechanically will develop into a successful credit man.

The credit department should have an equipment commensurate with its importance. It should be the inner chamber in all respects. Recorded confidences should never be violated, and there should be no latchstring to this department. Its mechanism of blanks, files, vaults, and office fixtures should be perfectly adapted to its service, and every means which ingenuity can devise should be utilized to assist its work.

Analysis of Statements.

In our reviews of the credit science of to-day we have noted the universal custom of giving statements. We have glanced over the mechanism provided for the handling of these statements and correlated data, but

the important feature of all credit science is: What is our interpretation of these statements? I wish to make clear my conviction that a statement which is not submitted to analysis is a menace. Because, first, if errors have been made, if lack of judgment on the part of the management of the concern has been shown which is not brought to the attention of the borrower; if reckless methods have been indulged in or any dishonesty has been practised, the very fact that a statement has been received and accepted by a banker either lulls into a sense of security the careless or heedless borrower, confirms the reckless financial habit, or establishes the dishonesty if such exists. I repeat, that an unanalyzed statement is worse than no statement at all.

Frank and open statements bearing upon their face the evidence of a true condition of affairs, are, to my mind, the greatest factors in establishing credit. Nothing will more firmly cement the union between borrower and banker than such a statement, and nothing will be of more value to a banker and of less harm to an honest, enterprising borrower. Hidden facts are revealed by analysis and skill in reading between the lines is an important part of the credit man's training. By this means weaknesses may frequently be discovered and proper steps taken to avert trouble before acute difficulty arises.

Principles and Rules of Credit Science.

Let us summarize, then, the principles and rules of the credit science of to-day.

Its principles:

1. To reduce losses.
2. To eliminate disproportionate risks.

3. To conserve worthy interests.
4. To war on dishonesty and incompetence.

Its mechanism:

1. The statement of condition, including—
Assets and liabilities.
Annual business.
Net result of business.
Commercial expenses.
2. The credit department.

Its guiding rules in the present state of bank credits:

Rule No. 1. Quick assets only are a basis for loans.

Rule No. 2. Fixed assets only considered as giving an unknown support to the quick assets.

Rule No. 3. The debt limit of the borrower has been exceeded when his liabilities exceed 50 per cent of his quick assets (the so-called 50 per cent credit rule).

Accuracy is Required.

Having made a careful review of the credit science of today, let us turn to a consideration of what shall be the next step in its development. At the outset we remarked that there was a growing requirement that bankers in large money centers should be expert in credit matters; it is necessary, therefore, that the means or mechanism by which we are to inform ourselves should be kept fully abreast of the times. Permit me to state my conclusion that the next step in the development of credit science will be in the direction of accuracy. The trend of every science is toward exactness. The advance to this point justifies a further step in advance. Lower rates of in-

terest on loans make losses intolerable. General prosperity and other conditions with which we are familiar have limited the field for commercial loans at paying rates and require us carefully to safeguard any extension of the field of loans by exact and accurate credit tests.

How shall this next step be taken? By establishing the custom of requiring statements of financial condition to bear joint certificates of a certified public accountant and of an engineer:—

1. As to the valuation of cash assets.
2. As to valuation of merchandise assets.
3. As to valuation of plant assets.
4. As to liabilities.
5. As to net worth.
6. As to gross business.
7. As to past results of business.
8. As to future prospects.

Value of the Accountant.

The certified public accountant has come into prominence within the last ten years and his profession has the guarantee of law in most states of the Union. He concerns himself with the books of account, and records and statements prepared by him have the support of such books, and the banker has the sense of security due to the disinterested and impartial nature of the accountant's position. He may be called the referee in accountancy and the expert on cash valuations.

Value of the Engineer.

The engineer deals with physical matters. His valuation on merchandise is essential in determining quick

assets. He concerns himself with the valuation of the fixed assets and the adaptability of the plant to the purposes for which it is being used. His analysis of all correlated questions respecting raw supplies, vulnerability to competition, price fluctuations, trade, and similar conditions is essential to a right interpretation of statements of concerns affected by such questions.

Inaccurate and Dishonest Statements.

But why is this radical step made necessary? Because inaccurate and dishonest statements are being constantly received. Many statements reach us which are made by irresponsible parties—clerks and under-men—and the management is frequently in ignorance of true conditions. Protection against such is essential.

All Benefited by Examination.

The radicalness of the step is only apparent, not real—as all will be benefited by the examination proposed. The interpretation of credit statements is a technical operation, and the statements prepared by trustworthy professional men are generally more reliable than those not so prepared. The hard and fast 50 per cent credit rule will soon fail, and an exact and accurate study of each individual concern will take its place, each concern being entitled to credit on its merits. Working on imperfect information and applying one credit rule has resulted necessarily in a destructive policy. Accuracy will enable us to follow a constructive policy, which I believe is more nearly in accord with our position in the business world.

In brief, our next step is in the direction of accuracy. This is to be accomplished by having statements subjected to searching analysis certified to by certified pub-

lic accountants and engineers, and then credit will be extended strictly on the merit of the individual applying for loans.

Practical Features of Bank Credits.

We are a practical people who are more given to consideration of improving our methods than to reflection upon our existing greatness or that of our predecessors. For that reason I have up to this time devoted your attention to progress in methods and means of credit research. I will now turn your attention to some practical features of the business we are doing based on bank credits. I have been much interested in determining the relative volume of bank loans on commercial paper to the various classes of borrowers. While this relation undoubtedly fluctuates widely it is my conclusion that the following statement reflects about the average condition:

	Per cent
Commercial loans by banks to manufacturers	50
Commercial loans by banks to commission men . . .	15
Commercial loans by banks to jobbers	30
Commercial loans by banks to retailers	5
	<hr/>
	100

This was ascertained from the distribution of 186 different loans, aggregating upward of thirteen million dollars. The average distribution of some sixty million dollars of loans placed through brokers in New York gave the following relative proportions:

	Per cent
Commercial loans through brokers to manufac- turers	45

Commercial loans through brokers to commission men	15
Commercial loans through brokers to jobbers	30
Commercial loans through brokers to retailers ...	10
	<hr/>
	100

The striking preponderance of loans from banks to manufacturers is evident from both of these statements. It becomes of interest to us, then, to study further these various classes of borrowers, and I have prepared from the statements of some one hundred concerns a set of typical balance sheets that will bring before us some credit features, which it will be of profit to us to study with care.

Typical Balance Sheets.

Typical balance sheet for manufacturers.

Number of concerns averaged	62	
		Per cent
Quick assets	\$1,000,000	44
Fixed assets	1,270,000	56
	<hr/>	<hr/>
Total assets	\$2,270,000	100
Liabilities	610,000	27
	<hr/>	<hr/>
Net worth	\$1,660,000	73
Liabilities 61 per cent of quick assets.		
Gross sales per \$1 quick assets	\$3.30	
for 44 concerns.		
Gross sales per \$1 total assets	1.60	
for 44 concerns.		

Typical balance sheet for commission men.

Number of concerns averaged	7	Per cent
Quick assets	\$1,000,000	95
Fixed assets	50,000	5
<hr/>		<hr/>
Total assets	\$1,050,000	100
Liabilities	520,000	50
<hr/>		<hr/>
Net worth	\$ 530,000	50
Liabilities 52 per cent of quick assets.		
Gross sales per \$1 quick assets	\$3.60	
Gross sales per \$1 total assets	3.45	

Typical balance sheet for jobbers.

Number of concerns averaged	28	Per cent
Quick assets	\$1,000,000	90
Fixed assets	110,000	10
<hr/>		<hr/>
Total assets	\$1,110,000	100
Liabilities	440,000	40
<hr/>		<hr/>
Net worth	\$ 670,000	60
Liabilities 44 per cent of quick assets.		
Gross sales per \$1 quick assets	\$2.25	
on 25 concerns.		
Gross sales per \$1 total assets	2.08	
on 25 concerns.		

Typical balance sheet for retailers.

Number of concerns averaged	6	
		Per cent
Quick assets	\$1,000,000	75
Fixed assets	330,000	25
	<hr/>	<hr/>
Total assets	\$1,330,000	100
Liabilities	480,000	36
	<hr/>	<hr/>
Net worth	\$ 850,000	64
Liabilities 48 per cent of quick assets.		
Gross sales per \$1 quick assets	\$2.33	
on 5 concerns.		
Gross sales per \$1 total assets	1.82	
on 5 concerns.		

The exactness of these relations is not important for our study of the principles involved in credit research. Suffice it to say that a study of the several balance sheets will, I believe, disclose interesting comparisons. It is instructive to note in these balance sheets the relative proportion of quick to total assets:

	Per cent
Manufacturers have quick assets of total assets ...	44
Commission men have quick assets of total assets ..	95
Jobbers have quick assets of total assets	90
Retailers have quick assets of total assets.....	75

What stronger argument could we have for accuracy in our credit methods than that manufacturers, who borrow one-half the money loaned on commercial paper, have 56 per cent of their assets in such form that we re-

ject them as unknown and unknowable on account of our imperfect information and inability to determine their value?

Net Worth of Borrowers.

Again, referring to these balance sheets, let us compare the net worth of these classes of borrowers:

Manufacturers show net worth 73 per cent of their assets.

Commission men show net worth 50 per cent of their assets.

Jobbers show net worth 60 per cent of their assets.

Retailers show net worth 64 per cent of their assets.

From the face of this statement the manufacturer maintains an eminently satisfactory margin behind his loans, and what we will want to know in the future is that this claimed margin is conservatively valued.

Let us now examine into the gross sales which tell the tale of the entire managerial activity, the mobility of the quick or working capital:

Manufacturers, gross sales per \$1 quick assets	\$3.30
Commission men, gross sales per \$1 quick assets . .	3.60
Jobbers, gross sales per \$1 quick assets	2.25
Retailers, gross sales per \$1 quick assets	2.33

Here we are face to face with the most telling factor against a hard and fast credit test, in that the wide difference in results in the various lines of business are brought out. How can a uniform credit test be applied to such widely varying lines of business?

Of equal importance in showing the variations in different lines of commercial enterprise are the figures comparing the gross business done per \$1 of total assets, rep-

representing as it does the total investment in plant and working capital:

Manufacturers, gross sales per \$1 total assets . . .	\$1.60
Commission men, gross sales per \$1 total assets . . .	3.45
Jobbers, gross sales per \$1 total assets	2.08
Retailers, gross sales per \$1 total assets	1.82

Failure of Uniform Credit Tests.

Becoming more specific in our inquiry we may also come to the conclusion that if a uniform credit test fails, when applied to various lines of business, such as manufacturing, jobbing, etc., it will also fail when applied to various branches of the same line of business.

The following figures taken from the twelfth census of the United States will illustrate the wide variations among manufacturing interests. In 1900 the census report, covering the various branches of the manufacturing division of commercial affairs showed a proportion of working capital to total capital as follows:

	Number Concerns		Per Cent.		
Food products . .	61,302	Working cap.	46	Total cap.	
Textiles	30,048	"	54	"	"
Iron and Steel . .	13,896	"	50	"	"
Lumber	47,079	"	45	"	"
Leather	16,989	"	72	"	"
Paper and pr'nt'g.	26,747	"	40	"	"
Liquors	7,861	"	41	"	"
Chemicals	5,444	"	51	"	"
Clay, glass, etc.	14,809	"	37	"	"
Metals	16,305	"	52	"	"
Tobacco	15,252	"	76	"	"

Vehicles for land

transportation	.10,113	"	"	53	"	"
Shipbuilding	.... 1,116	"	"	45	"	"

There will be noted a fluctuation from 37 per cent to 76 per cent and the entire industry averaged 48.8 per cent, these variations emphasizing the futility of uniform credit tests.

The census report also gave some interesting facts regarding the fluctuations in the gross business per \$1 working capital and \$1 total capital as shown below:

	Number	Gross Business Per \$1	Gross Business Per \$1.
	Concerns.	Working Cap.	Total Cap.
Food products	...61,302	\$5.22	\$2.42
Textiles	..... 30,048	2.24	1.20
Iron and steel	... 13,896	2.33	1.17
Lumber	..... 47,079	2.40	1.09
Leather	..... 16,989	2.35	1.17
Paper and printing			
	26,747	2.70	1.09
Liquors	7,861	1.96	.79
Chemicals	5,444	2.17	1.11
Clay, glass, etc.	14,809	2.28	.83
Metals	16,305	3.52	1.83
Tobacco	15,252	3.02	2.28
Vehicles for land			
transportation	10,113	2.42	1.21
	10,113	2.42	1.21
Shipbuilding	1,116	2.14	.97
Average		\$2.70	\$1.32

Observing this it will be noted that the gross business per \$1 of working capital varied from \$1.96 to \$5.22. The gross business per \$1 of total capital varied from 79 cents to \$2.42. Does this not further emphasize the fact that lines of business should be judged strictly on their individual merits, rather than by hard and fast rules?

It would be interesting, if we had time, to compare many of the branches of these industries which vary even more widely than the grand division of manufacturers. Every consideration seems to impress the fact that one of the cardinal and fundamental principles of credit science must be accuracy in all the term implies. This forces us to the conclusion that the 50 per cent credit rule as regards quick assets to liabilities will not long be the chief factor in fixing upon the responsibility of borrowers in the light of the variation among the various classes enumerated. The time is coming when we shall be compelled to secure information which is accurate and reliable, and which has behind it the weight of certification and proof.

To Encourage Manufacturers.

As to the future: We are naturally looking forward to extending commercial loans at paying rates of interest. Inasmuch as loans which are secured by assets not readily convertible into cash are those which are subject to higher rates, it seems probable that the field of the manufacturers, now representing fully one-half of the loans direct from banks, is entitled to the most careful consideration in the study of bank credits, and is of such

importance as to demand of us intelligent examination and scientific treatment.

The manufacturers of the United States, numbering upwards of 500,000 concerns, have a gross business of, probably, \$13,000,000,000, requiring an investment in plant and working capital of \$10,000,000,000, the working capital being something under \$500,000,000—a volume of business and extent of investment which is stupendous in the extreme. The manufacturer is essentially the prime mover of commerce, and has to carry a large investment in plant and machinery. Invention and improvement of machinery and products are continuous, thus making large inroads into his sinking fund for renewals and scrapped machinery. He must maintain large stocks of raw material and be secure in the continuity of his supplies. He must carry large values of goods in process. He must risk the fluctuations in the cost of raw materials and sales value of his finished goods. He must take chances on changes in style and be at the mercy of the caprice of fashion. All of these considerations should lead us to count upon the manufacturer as substantial, conservative, keen after business, acute for economies; and the extent of his investment should give him such an intense personal interest in his enterprise that we should expect to find him the most promising of our applicants for loans. But to handle this business safely and wisely demands accuracy in our credit methods.

Importance of Credit Science.

In conclusion, permit me to say that credit science occupies a prominent place in commercial affairs. The re-

quirement of credit is a proper and necessary condition of business, and the usefulness of credit is firmly established. Every consideration demands of us that as this science develops it shall be firmly established in all respects upon substantial principles, and that as its rules and customs are unfolded from time to time they shall serve to strengthen jointly the bank in extending credit and the borrower in taking advantage of the credit.

It will require joint and harmonious action on the part of all interested in bank credits to successfully accomplish the forward step which has been outlined in these remarks, but if this is accomplished, judging from our experience in the past, the results will be of surpassing value to the entire commercial community.

Let us restate, then, the principal facts regarding this advance step:

1. It shall be in the direction of accuracy.
2. Statements of condition shall be required of borrowers, bearing the certificate of certified public accountants and of engineers.
3. Statements of condition shall be invariably analyzed faithfully and accurately, and with all the thoroughness, weight of experience, and knowledge which can be brought to bear upon them by our best organization and equipment.

To THE FIRST NATIONAL BANK OF CHICAGO

C 3 1

Firm Name _____ Location _____

Business _____ Branches if any, _____

For the purpose of procuring credit, from time to time, with the above bank for our negotiable paper, or otherwise, we furnish the following as being a fair and accurate statement of our financial condition on the _____ day of _____ 190__

ASSETS				LIABILITIES			
Cash on hand and in Bank				Bills Payable for Merchandise			
Advances				Bills Payable for Borrowed Money			
Bills Receivable, good, due from Customers				Open Accounts			
Accounts Receivable, good, due from Customers				Deposits of Moneys with us			
Merchandise (How valued _____)				Mortgages or Liens on Real Estate			
Raw Material (How valued _____)				Chattel Mortgages			
Stocks and Bonds, Listed				Other Inclusions, and all what Composed			
Stocks and Bonds, Unlisted							
Real Estate, belonging to firm							
Machinery and Fixtures							
Horses and Wagons				Total Liabilities			
Interest, Insurance, etc.				Net Worth			
Other Assets, and all what Composed							
Bills and Accounts Receivable, due from Partners							
Total				Total			

Contingent Liability

{ Accommodation Endorsements
{ Endorsed Bills Receivable Outstanding

Names in full of all General Partners and the respective worth of each, outside of the business {

Names in full of Special Partners with amounts contributed by each, and until when {

State last date of taking Trial Balance and if same proved

Insurance carried on Merchandise, \$

On Real Estate, \$

Memorandum

(Please sign here)

By

Date signed

190__

Statement of Condition—Partnership.

CHAPTER XIII.

THE COMPTROLLER'S OFFICE.

BY JAMES H. ECKELS,

Former Comptroller of the Currency and President of the Commercial National Bank of Chicago.

The office of the Comptroller of the Currency was created by an act of Congress passed in 1863. The duties defined by the statute were that he should have the supervision of banks to be organized throughout the country, known as "national banks." These banks were compelled to deposit with the Treasury Department United States bonds to be held as security for their circulating notes, thus providing a sound bank currency and at the same time creating a market for bonds.

It was the intention of those who created the act that the office should be kept out of politics. It was created for a distinct business purpose, having a close relation to the commercial and financial interests of the country, and the situation required that the Comptroller should be free from all political bias, and that the office should remain outside the realm of politics. So far as the Comptrollers of the Currency have been concerned, they have, as best they could within their power, kept the office out of politics and made it distinctly a business office.

In accordance with this idea, the incumbent of the office was to be appointed by the President of the United States upon the suggestion of the Secretary of the Treasury, and to hold the office for a period of five years,

thus extending it beyond the incumbency of the presidential office. The Comptroller could not be removed from office except on charges filed by the President, and action taken thereon in the form of impeachment—the only office, with possibly the exception of the Director of the Mint, where removal cannot be had on charges filed with the Senate.

An Independent Office.

There is a nominal affiliation between the Treasury Department and the office of the Comptroller of the Currency, but the Comptroller's office, differing from any other connected with the department, does not report on what goes on within the Comptroller's office, either to the Treasurer or to the President; nor does the Comptroller report either to the President or the Secretary, but he reports directly to the Congress of the United States, being required to give annually the conditions of the banks as they are on a certain day prior to the convening of Congress, together with such recommendations as would, in his opinion, improve the banking conditions of the country. The salary of the office, like that attaching to most high positions under the government, is very meager, being only \$5,000 a year; and yet there are a good many people willing to accept the place.

The act creating the national-bank system and the office of Comptroller sets forth what shall be done to create a national bank. It gives the number of persons who may take a charter (not less than five), and fixes the minimum amount of capital for such banks, that being not less than \$50,000 in cities of not over 6,000 inhabitants, and from \$100,000 to \$200,000 in cities of larger

size. This act has been amended to permit the organization of banks with \$25,000 capital, and in other respects.

The Organization Department.

The office in its organization has three or four departments. The Organization Department receives the applications for the creation of a national bank. The application must set forth the names of those who are seeking the charter, the amount of capital, the population of the city, etc. When the application is received, the Comptroller examines it to ascertain whether or not the persons applying should be granted a charter; and if, in his judgment, a charter should not be given, it is not granted. This is not the result of any statutory requirement, but a course which the office has assumed of itself without any question as to its right. The great powers of which the incumbent of the office is possessed are powers which he has assumed rather than received by legislative enactment, and their assumption and continued possession come largely from the fact that the banking institutions over which he presides realize the importance of the Comptroller's hands being upheld, if the banks are to be healthful and sound institutions.

The bank, having been granted a charter, is given a name, that which the incorporators select always being given, unless at that time or prior the name suggested has been used by another bank. The bank, having then deposited with the Treasurer of the United States the minimum amount of bonds, may now take out circulation. There have been a good many banks, especially in the larger cities requiring a minimum amount of \$50,000 bonds, which have never taken out any circulation what-

ever. I think there are few banks that have the maximum amount of circulation which the law permits them. This is on the principle that there is not any profit in the circulation, and that it is better to leave the bonds without taking out the circulation, paying the tax, and going to the general trouble of having the circulation issued.

National Bank Examiners.

After the bank has been established, it comes under the active supervision of the Comptroller of the Currency. Under the act he is empowered, subject to the approval of the Secretary of the Treasury (and in that alone has the Secretary any control over the Comptroller's office, exercising the same right that the Senate of the United States does over the appointments of the President of the United States), to appoint a number of men to the office of National Bank Examiners. Their duties, under the direction of the Comptroller of the Currency, are to visit the banks in the districts to which they are appointed.

Here again comes into play the power assumed on the part of the Comptroller, for he makes it the duty of the examiner, not only to see that the capital stock is intact but to see further that all the methods of banking employed in the bank are of a character that insures not only safety to the public, but benefit to the stockholder. As a result, the examiner not only sees that all the cash is there, but he takes upon himself the duty of seeing to it, as far as he can, that the paper held by the bank is genuine, that the notes are of the value that they represent themselves to be, and that many other details are properly administered.

Thus it happens that when an inspector comes into a bank and finds an old-fashioned method of bookkeeping employed, he reports that fact; he also ascertains the salary of the various officials, the amount of rent paid, and all other details which enter into the conduct of a bank. The same method of examination is pursued whether in the National City of New York, with a capital of \$10,000,000, or in the smallest bank of medium capital.

The great strength of the national-bank system, the great source of its influence over the banking system of the country since its establishment, has arisen from the very uniformity of the control exercised in the Comptroller's office, bringing about in the individual banks, whether in Chicago, New York or elsewhere, the same method of bookkeeping and the same details which are necessary to the careful management of a bank.

The Department of Reports.

The examiner's report is made to the Comptroller of the Currency, and thence sent to the Department of Reports, where there is a large force of clerks to examine these reports, see what is defective in the bank, and compare with the previous report. Upon the basis of these reports the Comptroller of the Currency writes to the president or directors of the bank suggesting steps to be taken to strengthen the position of the bank.

The Redemption Department.

There is another division of the Comptroller's office known as the Redemption Department, where mutilated and worn-out bank notes and the notes of banks which have gone into liquidation are redeemed.

The Issuing Department.

Another department, known as the Issuing Department, issues to the banks the amount of bank notes to which they are entitled. Until the Bank Act was amended during the administration of President McKinley, the amounts of circulating notes to be issued on the deposit of bonds was 90 per cent of the par value of the bonds. But under the present act, the total value of the bonds may be issued upon the 2 per cent bonds which were the refunding bonds of the former administration.

As to whether a bond-secured circulation is a wise circulation there are a good many suggestions. Safety does not enter into the question so long as the bonds of the United States continue good; which will be as long as United States revenues are collected; which will be as long as the people are able to pay internal-revenue taxes or duties on imported goods.

It has been suggested that the method of issuing bank-note currency is not desirable, because it gives to the creditor of the bank who is a note-holder an advantage over the creditor who is simply a depositor, in making the former preferred over the latter. Under the existing bond system the note-holder is a preferred creditor, because before the bank gets started into active operation so many of its assets are taken in the shape of bonds and deposited with the Treasurer of the United States to secure bank notes, these bonds being sold in case of failure of the bank, and the amount received from the sale being used to pay the claim of the preferred creditor, who holds the notes of the bank. In case there is not a sufficient amount of money received from the

bonds to pay the notes, the act provides that the noteholder shall have a prior lien on the other assets of the bank, out of which he shall be reimbursed before the payment is made to depositors.

Another objection which has always been found has not arisen from the idea that the safety could be improved, but is that with a note circulation amounting to only 90 per cent, or even to par on the deposited bonds, the premium on the bonds over their par value is always tied up. When the banks were allowed circulation equal to 90 per cent of the par value of the bonds and the bond was selling at 100 to 115, there was always twenty-five dollars locked up, not available for loaning purposes; and even at present there is still eleven dollars taken out of the active channels of business and permitted to lie in Washington, a source of profit neither to the bank nor to Congress.

So there are some very valid objections to the provisions for issuing notes by the banks, and I take it that as we make progress in the field of finance we shall come to understand what is the proper basis for a bank-note circulation, and we shall not be surprised if the bank-note issue shrinks to nothing, because it is more profitable to sell the bonds than to hold them as a basis for note issue. When a bank-note currency is based upon a security which varies in market value, no matter what may be the monetary needs of the country, if there is more profit in selling the bonds than in taking out notes thereon, the bonds will be sold.

Insolvent Banks.

If the bank impairs its capital, the Comptroller of the Currency notifies the directors and calls upon them to

make good the deficit. In case they fail to do so, the Comptroller declares the bank insolvent and places it in the hands of a receiver. In this the Comptroller is fortified by the decisions of the Supreme Court of the United States. His judgment must control. When he declares that a bank is insolvent, there is no power in the courts of the United States to gainsay that, and he is clothed with the right to appoint a receiver to take charge of the assets.

I remember an instance, when I was Comptroller, of a bank in Tacoma which my examiner reported to me as having a reserve of only 6 per cent whereas the requirement was 15 per cent, as it is in all but five or six large cities, known as reserve cities, where 25 per cent is required. I ordered the examiner to declare the bank insolvent. The directors got out an injunction, but the judge declared that, while he thought it was all wrong for the Comptroller of the Currency to have more power than the President and Congress, he could not do anything but let him take charge of the bank if he so desired. This power vested in the Comptroller requires impartial action over all banks that come under his control.

Responsibility of the Office.

The office differs from any other in Washington because there is absolutely no routine. Every case is an individual case, and the Comptroller must exercise individual judgment in every instance. The great responsibility that attaches to the office is due to the fact that the bank is the one necessity in every community that affects every business enterprise. The failure of the bank takes out of the business channels of the com-

munity more or less of the funds, and curtails the credit of the community.

That was particularly so during the panic of 1893. During the thirty years of the existence of the office prior to my incumbency there had been 182 failures of national banks. During the first two weeks I was in office there were 165 failures. The result of the failure of so many banks was seriously to embarrass many communities, and the effect was very far-reaching. I continued to give a bank opportunity to do business if I found its management sound and honest. It would be assumed that a bank having failed once, and having suspicion attached to it, could never succeed in obtaining the confidence of the public. I tried the experiment, laying down certain conditions which were to be complied with on the part of the directors of the bank. Of the 165, I thus opened 115, and 100 of these proved to be very successful institutions.

But there were many banks that did not fail, but were close to the point, and the question with the Comptroller was whether to close them at once or run the risk of their failure with ensuing disaster to the community. I remember one instance where I considered for a long time the advisability of closing a prominent bank in the Northwest. The institution had enjoyed high credit, but, because of investing in notes based on land booms in the neighborhood, the credit was seriously impaired. The examiner insisted that the bank should be closed, but I felt that I should take the risk. However, I put on it an assessment of considerable size. Many of the stockholders came to see me, and they finally concluded to pay

the assessment, and that bank is now the largest in its state.

Liquidation of Assets.

As a result of bad banking or mistaken banking, banks are very likely to get themselves loaded up with assets not easily realizable, and when the pinch comes they fail and go into the hands of a receiver. The liquidation of these assets is not an easy problem, especially as the law requires that the receiver shall recommend what shall be done with this or that asset, that the Comptroller shall approve, and that the district court shall enter a decree authorizing the sale.

While it is provided that the bank shall not loan upon real estate, a good many banks get such security by making a loan and then taking additional security in the form of a mortgage. I found in the failures of banks a good deal of such paper. There are many assets of a strange character. At one time I had a full equipment for an opera house. I had in a Dakota town a butcher shop. I had any amount of live stock; I had one trotting horse, which sold for \$10,000. In Puget Sound a certain bank had as part of its assets enough cans to can a large portion of the salmon caught in Columbia river. And there is hardly a thing you could name, from an article of wearing apparel to a large manufactory, that at some time or other does not in this way get into the hands of the Comptroller.

CHAPTER XIV.

MONETARY SYSTEM OF THE U. S.

No. 1—Gold and Silver Coinage.

In 1786 the Congress of the Confederation chose as the monetary unit of the United States the dollar of 375.64 grains of pure silver. This unit had its origin in the Spanish piaster or milled dollar, which constituted the basis of the metallic circulation of the English colonies in America. It was never coined, there being at that time no mint in the United States.

The act of April 2, 1792, established the first monetary system of the United States. The bases of the system were: The gold dollar or unit, containing 24.75 grains of pure gold, and stamped in pieces of \$10, \$5, and \$2½, denominated respectively eagles, half eagles, and quarter eagles; the silver dollar or unit, containing 371.25 grains of pure silver. A mint was established. The coinage was unlimited, and there was no mint charge. The ratio of gold to silver in coinage was 1 to 15. Both gold and silver were legal tender. The standard was double.

The act of 1792 undervalued gold, which was therefore exported. The act of June 28, 1834, was passed to remedy this, by changing the mint ratio between the metals to 1 to 16.002. This latter act fixed the weight of the gold dollar at 25.8 grains, but lowered the fineness from 0.916 $\frac{2}{3}$ to 0.899225. The fine weight of the gold dollar was thus reduced to 23.2 grains. The act of 1834 undervalued silver, as that of 1792 had under-

valued gold, and silver was attracted to Europe by the more favorable ratio of 1 to 15 $\frac{1}{2}$. The act of January 18, 1837, was passed to make the fineness of the gold and silver coins uniform. The legal weight of the gold dollar was fixed at 25.8 grains and its fine weight at 23.22 grains. The fineness was therefore changed by this act to 0.900 and the ratio to 1 to 15.988 +.

Silver continued to be exported. The act of February 21, 1853, reduced the weight of the silver coins of denomination less than \$1, which the acts of 1792 and 1837 had made exactly proportional to the weight of the silver dollar, and provided that they should be legal tender to the amount of only \$5. Under the acts of 1792 and 1837 they had been full legal tender. By the act of 1853 the legal weight of the half dollar was reduced to 192 grains and that of the other fractions of a dollar in proportion. The coinage of the fractional parts of the dollar was reserved to the Government.

Provisions of the Act of 1873.

The act of February 12, 1873, provided that the unit of value of the United States should be the gold dollar of the standard weight of 25.8 grains, and that there should be coined, besides, the following gold coins: A quarter eagle, or 2 $\frac{1}{2}$ dollar piece; a three-dollar piece; a half-eagle, or 5-dollar piece; an eagle, or 10-dollar piece, and a double eagle, or 20-dollar piece, all of a standard weight proportional to that of the dollar piece. These coins were made legal tender in all payments at their nominal value when not below the standard weight and limit of tolerance provided in the act for the single

piece, and when reduced in weight they should be legal tender at a valuation in proportion to their actual weight. The silver coins provided for by the act were a trade dollar; a half dollar, or 50-cent piece; a quarter dollar, and a 10-cent piece; the weight of the trade dollar to be 420 grains troy; the half dollar, $12\frac{1}{2}$ grams; the quarter dollar and the dime, respectively, one-half and one-fifth of the weight of the half dollar. These silver coins were made legal tender at their nominal value for any amount not exceeding \$5 in any one payment. The charge for converting standard gold bullion into coin was fixed at one-fifth of 1 per cent. Owners of silver bullion were allowed to deposit it at any mint of the United States, to be formed into bars or into trade dollars, and no deposit of silver for other coinage was to be received.

Section 2 of the joint resolution of Congress of July 22, 1876, recited that the trade dollar should not thereafter be legal tender, and that the Secretary of the Treasury should be authorized to limit the coinage of the same to an amount sufficient to meet the export demand for it. The act of February 19, 1887, retired the trade dollar and prohibited its coinage. That of September 26, 1890, discontinued the coinage of the 1-dollar and 3-dollar gold pieces.

The Silver Act of 1878.

The act of February 28, 1878, directed the coinage of silver dollars of the weight of $412\frac{1}{2}$ grains troy, of standard silver as provided in the act of January 18, 1837, and that such coins, with all standard silver dollars

theretofore coined, should be legal tender at their nominal value for all debts and dues, public and private, except where otherwise expressly stipulated in the contract.

The Secretary of the Treasury was authorized and directed by the first section of the act to purchase from time to time silver bullion at the market price thereof, not less than \$2,000,000 worth nor more than \$4,000,000 worth per month, and to cause the same to be coined monthly, as fast as purchased, into such dollars. A subsequent act, that of July 14, 1890, directed that the Secretary of the Treasury should purchase silver bullion to the aggregate amount of 4,500,000 ounces, or so much thereof as might be offered, each month, at the market price thereof, not exceeding \$1 for 371.25 grains of pure silver, and to issue in payment thereof Treasury notes of the United States, such notes to be redeemable by the Government, on demand, in coin, and to be legal tender in payment of all debts, public and private, except where otherwise expressly stipulated in the contract. The act directed the Secretary of the Treasury to coin each month 2,000,000 ounces of the silver bullion purchased under the provisions of the act into standard silver dollars until the 1st day of July, 1891, and thereafter as much as might be necessary to provide for the redemption of the Treasury notes issued under the act. The purchasing clause of the act of July 14, 1890, was repealed by the act of November 1, 1893.

The Standard of Value.

In providing for the coinage of the precious metals Congress established, by the act of April 2, 1792, the

standard of value, consisting of certain gold and silver coins, at a ratio of 15 to 1—that is to say, the value of an ounce of fine gold was in effect declared to be equal to the value of fifteen ounces of fine silver.

A list of the coins authorized by the acts of April 2, 1792, with the weights and fineness, will be found below. Both gold and silver coins were declared to be standards.

The ratio of 15 to 1 was adopted in pursuance of investigations conducted by Alexander Hamilton, Secretary of the Treasury, who, in his report upon the subject, said that 15 to 1 was a near approximation to the commercial value of the two metals. It was soon discovered, however, that gold at the ratio of 15 to 1 was undervalued, and silver became practically the only metallic money available for use in the United States. In 1834 the ratio was changed to 16.002 to 1, and in 1837 it was changed to 15.988 to 1. That is the present ratio and is commonly called 16 to 1. By this change silver was undervalued and gold came into use in its place.

By the act of February 12, 1873, the coinage of the standard silver dollar was discontinued, and the gold dollar of 25.8 grains of standard gold, .900 fine, was declared to be the unit of value. The subsequent restoration of the coinage of silver dollars under the act of February 28, 1878, was on Government account, and did not restore the silver dollar to its former place as a standard of value.

But while Congress provided for the so-called double or bimetallic standard, such double standard has never been effective in the United States. From 1792 to 1834 silver was the metal by which all values were measured,

and since 1834 gold has been and still is the sole actual standard.

Coins and Paper Currency.

There are ten different kinds of money in circulation in the United States, namely, gold coins, standard silver dollars, subsidiary silver, gold certificates, silver certificates, Treasury notes issued under the act of July 14, 1890, United States notes (also called greenbacks and legal tenders), national-bank notes and nickel and bronze coins. These forms of money are all available as circulation. While they do not all possess the full legal-tender quality, each kind has such attributes as to give it currency. The status of each kind is as follows:

Gold coin is legal tender at its nominal or face value for all debts, public and private, when not below the standard weight and limit of tolerance prescribed by law; and when below such standard and limit of tolerance it is legal tender in proportion to its weight.

Standard silver dollars are legal tender at their nominal or face value in payment of all debts, public and private, without regard to the amount, except where otherwise expressly stipulated in the contract.

Subsidiary silver is legal tender for amounts not exceeding \$10 in any one payment.

Treasury notes of the act of July 14, 1890, are legal tender for all debts, public and private, except where otherwise expressly stipulated in the contract.

United States notes are legal tender for all debts, public and private, except duties on imports and interest on the public debt.

[United States notes, upon resumption of specie payments, January 1, 1879, became acceptable in payment of duties on imports and have been freely received on that account since the above date, but the law has not been changed.]

Gold certificates, silver certificates, and national bank notes are not legal tender, but both classes of certificates are receivable for all public dues, while national-bank notes are receivable for all public dues except duties on imports, and may be paid out by the Government for all salaries and other debts and demands owing by the United States to individuals, corporations, and associations within the United States, except interest on the public debt and in redemption of the national currency. All national banks are required by law to receive the notes of other national banks at par.

The minor coins of nickel and copper are legal tender to the extent of 25 cents.

Gold Coins.

The coinage of legal-tender gold was authorized by the first coinage act passed by Congress, April 2, 1792.

The gold unit of value is the dollar, which contains 25.8 grains of standard gold .900 fine. The amount of fine gold in the dollar is 23.22 grains, and the remainder of the weight is an alloy of copper. While the gold dollar is the unit and standard of value, the actual coinage of the \$1 piece was discontinued under authority of the act of September 26, 1890. Gold is now coined in denominations of \$2.50, \$5, \$10, and \$20, called respec-

tively, quarter eagles, half eagles, eagles, and double eagles.

The total coinage of gold by the mints of the United States from 1792 to June 30, 1908, was \$2,993,448,703, of which it was estimated that \$1,535,401,287 was in existence July 1, 1908, as coin in the United States, while the remainder, \$1,458,047,416, represented the excess of exports over imports and the amount consumed in the arts. The gold bullion in the United States July 1, 1908, was about \$80,800,000.

The basis for the estimate of the amount of gold coin in the United States was established in 1873, when the amount in the vaults of the national banks and in the Treasury was ascertained from reports to be \$71,188,548. To this was added \$20,000,000 as an estimate of the amount of gold in use on the Pacific coast, \$10,000,000 as the amount held by all other banks and by the people and \$3,818,086 in national banks. The amount thus ascertained was \$105,006,634, to which have been added each year the new coinage reported by the Director of the Mint and the imports as shown by the custom house reports, and from which have been deducted the exports and the amounts consumed in the arts. It will be seen that more than one-half of the gold coins struck at the mints of the United States have disappeared from circulation.

[The Director of the Mint in 1908 revised the estimates of the amount of gold in the United States, and as a result of the revision the amount was reduced by \$135,000,000.]

Silver Coins.

The principal silver coin is the dollar, which contains $412\frac{1}{2}$ grains of standard silver .900 fine. The amount of fine silver in the dollar is $371\frac{1}{4}$ grains, and there are $41\frac{1}{4}$ grains of copper alloy. The standard silver dollar was first authorized by the act of April 2, 1792. Its weight was 416 grains .8924 fine. It contained the same quantity of fine silver as the present dollar, whose weight and fineness were established by the act of January 18, 1837. The coinage of the standard silver dollar was discontinued by the act of February 12, 1873, and it was restored by the act of February 28, 1878. The total amount coined from 1792 to 1873 was \$8,031,238, and the amount coined from 1878 to December 31, 1904, when the coinage was discontinued, was \$570,272,610. The coinage ratio between gold and silver under the act of 1792 was 15 to 1, but by the acts of 1834 and 1837 it was changed first to 16.002 to 1 and finally to 15.988 to 1 (commonly called 16 to 1). This is the present ratio.

Of the 570,272,610 standard silver dollars coined since February 1878, 2,495,000 are reported to have been shipped to Cuba, Porto Rico, and the Philippines, of which 612,730 have been returned; there were held in the Treasury June 30, 1908, \$491,895,049, and the amount outside the Treasury in the United States was \$76,354,933. Of the amount held in the Treasury \$474,350,000 were held for the redemption of an equal amount of silver certificates outstanding; \$4,982,000 were held on account of Treasury notes of 1890, and \$12,563,049 were held in the general cash as assets of the Government. The commercial value of an ounce of fine silver

June 30, 1908, was \$0.54282, and the commercial value of the silver in the silver dollar on that date was 41.983 cents.

Subsidiary Silver.

The silver coins of smaller denominations than one dollar, authorized by the act of April 2, 1792, were half dollars, quarter dollars, dimes, and half dimes. They were the equivalent in value of the fractional parts of a dollar which they represented—that is, two half dollars were equal in weight to one silver dollar, and so on. These coins were full legal tender when of standard weight, and those of less than full weight were legal tender at values proportional to their respective weights.

By the act of February 21, 1853, the weight of the fractional silver coins was reduced so that the half dollar weighed only 192 grains, and all the smaller denominations were reduced in proportion. Their legal-tender quality was at the same time limited to \$5, and they thus became subsidiary coins. The present subsidiary coins are half dollars, quarter dollars, and dimes. Their weight is slightly different from that prescribed by the act of 1853; but the limit of their legal-tender quality has been raised to \$10, and \$197,912,578 have been coined since 1873.

- The amount of full-weight fractional silver coined prior to 1853 was \$76,734,964.50, and the amount of subsidiary silver coined since that year is \$256,959,974.20.

There was a period, from 1862 to 1876, when there was no fractional silver coin in circulation in the United States except on the Pacific coast. During this period

the small change of the country consisted of fractional paper currency, which is described below.

Issue of Standard Silver Dollars and Subsidiary Silver.

Standard silver dollars are issued by the Treasurer and assistant treasurers in redemption of silver certificates and Treasury notes of 1890, and are sent by express, at the expense of the Government, in sums or multiples of \$500, for silver certificates or Treasury notes of 1890 deposited with the Treasurer or any assistant treasurer.

Upon the deposit of an equivalent sum in United States currency or national-bank notes with the Treasurer or any assistant treasurer or national-bank depository, subsidiary silver coin will be paid in any amount by the Treasurer or assistant treasurers in the cities where their several offices are, or will be sent by express, in sums of \$200 or more, at the expense of the Government, or by registered mail, at the risk of the consignee, in packages of \$50, registration free, from the most convenient Treasury office, to the order of the depositor. For this purpose drafts may be sent to the Treasurer or the assistant treasurer in New York, payable in their respective cities to the order of the officer to whom sent.

The Silver Act of 1890:

AN ACT Directing the purchase of silver bullion and the issue of Treasury notes thereon, and for other purposes.

[PUBLIC—No. 214. 1890.]

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Secretary of the Treasury is hereby directed to purchase, from time to time, silver bullion to the aggregate amount of four mil-

lion, five hundred thousand ounces, or so much thereof as may be offered in each month, at the market price thereof, not exceeding one dollar for three hundred and seventy-one and twenty-five hundredths grains of pure silver, and to issue in payment for such purchases of silver bullion Treasury notes of the United States to be prepared by the Secretary of the Treasury, in such form and of such denominations, not less than one dollar nor more than one thousand dollars, as he may prescribe; and a sum sufficient to carry into effect the provisions of this act is hereby appropriated, out of any money in the Treasury not otherwise appropriated.

SEC. 2. That the Treasury notes issued in accordance with the provisions of this act shall be redeemable on demand, in coin, at the Treasury of the United States, or at the office of any assistant treasurer of the United States, and when so redeemed may be reissued, but no greater or less amount of such notes shall be outstanding at any time than the cost of the silver bullion and the standard silver dollars coined therefrom, then held in the Treasury purchased by such notes; and such Treasury notes shall be a legal tender in payment of all debts, public and private, except where otherwise expressly stipulated in the contract, and shall be receivable for customs, taxes, and all public dues, and when so received may be reissued; and such notes, when held by any national banking association, may be counted as a part of its lawful reserve. That upon demand of the holder of any of the Treasury notes herein provided for the Secretary of the Treasury shall, under such regulations as he may prescribe, redeem such notes in gold or silver coin, at his discretion, it being the established policy of the United States to maintain the two metals on a parity with each other upon the present legal ratio, or such ratio as may be provided by law.

SEC. 3. That the Secretary of the Treasury shall each month coin two million ounces of the silver bullion purchased under the provisions of this act into standard silver dollars until the first day of July, eighteen hundred and ninety-one, and after that time he shall coin of the silver bullion purchased under the provisions of this act as much as may be necessary to provide for the redemption of the Treasury notes herein provided for, and any gain or seigniorage arising from such coinage shall be accounted for and paid into the Treasury.

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Meaning of 16 to 1.

The phrase "16 to 1," as applied to coinage, means that the mint value of 16 ounces of silver shall be equal to the mint value of 1 ounce of gold, that is, that 16 ounces of silver shall be coinable into as many standard silver dollars as one ounce of gold is coinable into standard gold dollars.

Standard Bullion.

Standard bullion contains 900 parts of pure gold or pure silver and 100 parts of copper alloy.

The coining value of an ounce of pure gold is \$20.-67183 and the coining value of an ounce of standard gold is \$18.60465.

The coining value in standard silver dollars of an ounce of pure silver is \$1.2929 and the coining value of an ounce of standard silver is \$1.1636.

What Is Seigniorage?

The term seigniorage, as used in the United States, means the profit arising from the coinage of bullion. The Government does not purchase gold bullion, but coins it on private account. There is no profit from the coinage of gold bullion, the face value of gold coins being the same as their bullion value, but at the present ratio of 16 to 1 the face value of the silver dollar is greater than its bullion value; therefore when silver bullion is purchased and coined into dollars there is a profit arising from such coinage, the amount of which depends upon the price paid for the bullion. For example, there are $371\frac{1}{4}$ grains of pure silver in a dollar and there are 480 grains of pure silver in a fine ounce. The coinage value of a fine ounce is, therefore, \$.2929.

If the fine ounce can be purchased for 70 cents, the profit of its coinage (the seigniorage) is \$0.5929—, and the profit on the $371\frac{1}{4}$ grains of pure silver in the single dollar is \$0.4586—, which is the difference between the actual cost of the bullion in the dollar and the nominal value of the coin.

The silver purchased by the Government is carried on the books of the Treasury at its actual cost, and the seigniorage is declared on the coinage of each month and paid into the Treasury.

Coinage of Gold.

In the United States there is free and unlimited coinage of gold, that is, standard gold bullion may be deposited at the mints in any amount, to be coined for the benefit of the depositor, without charge for coinage; but when other than standard bullion is received for coinage a charge is made for parting, or for refining, or for copper alloy, as the case may be. Refining is the elimination from the bullion of all base metals. Parting is the separation of any silver which may be contained in the bullion. The charges for these operations vary according to the actual expenses. When copper is added for alloy, a charge of 2 cents per ounce is made for the amount actually added. The depositor receives in gold coin the full value of the gold in his bullion, less such charges as are indicated above.

The mints may lawfully refuse to receive gold bullion of less value than \$100, or when it is too base for coinage; but in practice deposits of gold bullion are accepted without regard to amounts, and rejected only when too base for coinage.

Coinage of Silver.

Under existing law in the United States subsidiary silver is coined only on Government account. This coinage is made from bullion purchased by the Government under the provisions of section 3526, Revised Statutes, and the profits on such coinage belong to the Government. There is at present (1909) no authority for the purchase of silver bullion for the coinage of standard silver dollars.

The total amount of silver bullion purchased under the act of July 14, 1890, from August 13, 1890, the date the act went into effect, to November 1, 1893, the date of the repeal of the purchasing clause of that act, was 168,674,682.53 fine ounces of silver costing \$155,931,-002.25.

There were coined from the bullion purchased under the act of July 14, 1890, 187,027,345 standard silver dollars, of which \$134,285,166 represent the cost of the bullion coined, and which were held in the Treasury for the redemption of Treasury notes of 1890, while the remainder, \$52,742,179, constitutes the gain or seigniorage, and being the property of the United States, has been paid into the Treasury of the United States to be used as other available funds.

Under the acts of March 14, 1900, and March 2, 1903, there were coined to July 1, 1905, from the silver bullion purchased under the act of July 14, 1890, \$33,118,576 in subsidiary silver coin of which \$21,583,300 represent the cost of the bullion contained in such coinage and for which an equal amount of Treasury notes of 1890 were retired, and the balance, \$11,535,276 seigniorage paid into the Treasury.

The seigniorage is an addition to the volume of money in the country, while the silver coin representing the cost of the bullion is not, since it is paid out only in redemption of the Treasury notes of 1890, whereupon the latter are canceled and retired, as prescribed by the acts of July 14, 1890, and March 14, 1900.

The total expenditure by the United States for silver bullion exclusive of subsidiary silver coinage, is:

Under act of February 28, 1878.....\$308,297,260.71

Under act of July 14, 1890..... 155,931,002.00

Total\$464,210,262.71

There have been coined from the bullion thus purchased standard silver dollars of the face value of \$570,-272,610, and subsidiary silver coin of the face value of \$33,118,576, consuming the entire amount of bullion purchased under the act of July 14, 1890.

The bullion value July 1, 1908 of the standard silver dollars coined was \$238,843,936.

The space required for the storage of 1,000,000 standard silver dollars is 250 cubic feet. The standard silver dollars in the vaults of the Treasury and the several subtreasuries, June 30, 1904, amounting to about 462,-000,000, required 115,500 cubic feet of space.

Trade Dollars.

The trade dollar of 420 grains troy was authorized by the act of February 12, 1873. It was intended for circulation in oriental countries as a substitute for the Mexican dollar, which it slightly exceeded in weight; but by the terms of the authorizing act it was made legal tender in the United States in sums not exceeding \$5.

This legal tender quality was withdrawn by the joint resolution approved July 22, 1876, and the coinage was limited to such amount as the Secretary of the Treasury should consider sufficient to meet the export demand. The act of February 19, 1887, provided for the retirement of trade dollars and their recoinage into standard silver dollars or subsidiary silver. For six months after the passage of the act they could be exchanged at the Treasury or any sub-treasury, dollar for dollar, for standard silver dollars or subsidiary coin.

The total number of trade dollars coined was 35,965,-924. The number redeemed under the act of 1887 was 7,689,036, and from the bullion resulting from the melting of these dollars there were coined in subsidiary silver \$2,668,674.30, and into standard silver dollars \$5,078,-472. Since the expiration of the period of redemption above mentioned, trade dollars have been purchased as bullion when presented at the mints.

Free and Unlimited Coinage of Silver.

This term, as used at present in the discussion of the coinage question, means the right of any person to deposit standard silver bullion in any amount at the mints of the United States and have it coined at the expense of the Government, such depositor to receive for his bullion silver coins containing in the aggregate the same weight of fine silver as brought to the mint.

Any coinage under a future law would depend upon the terms of that law. (See "Coinage of Gold.")

Unlimited Coinage.

Coinage may be unlimited without being entirely free. It would be unlimited if any owner of bullion had the

right to deposit it at the mint and have it converted into coins without any restrictions as to the amount.

World's Stock of Gold and Silver Coin in 1873 and 1906.

The stock of gold and silver in the world in 1873 and 1906 is estimated to have been as follows:

	1873	1906
Gold	\$3,045,000,000	\$6,888,900,000
Silver	1,817,000,000	3,260,200,000

Sales of Gold.

During the period of the suspension of specie payments in the United States—January 1, 1862, to January 1, 1879—the customs revenues of the Government were collected in gold. A sufficient amount of this gold was reserved to meet that portion of the interest on the public debt which was payable in coin, and the remainder was sold from time to time for currency at the market price by the several assistant treasurers of the United States, under instructions from the Secretary of the Treasury. The currency so obtained, with the currency collected from internal revenue and from other sources, was used to defray the ordinary expenses of the Government. The surplus, if any, was applied, as far as it would go, to the redemption of the lawful-money obligations as they fell due, and after their maturity to the purchase of bonds at the market price.

The total amount of gold sold was \$526,506,273.81, and the currency received therefor amounted to \$633,334,089.67.

The average premium obtained was 20.3 per cent.

Redemption.

Gold coins and standard silver dollars, being standard coins of the United States, are not "redeemable."

Subsidiary coins and minor coins may be presented, in sums or multiples of \$20, to the Treasurer of the United States or to an assistant treasurer for redemption or exchange into lawful money.

United States notes are redeemable in United States gold coin in any amount by the Treasurer and all the assistant treasurers of the United States.

Treasury notes of 1890 are redeemable in United States gold coin in any amount by the Treasurer and all the assistant treasurers of the United States.

National-bank notes are redeemable in lawful money of the United States by the Treasurer, but not by the assistant treasurers. They are also redeemable at the bank of issue. In order to provide for the redemption of its notes when presented, every national bank is required by law to keep on deposit with the Treasurer a sum equal to 5 per cent of its circulation.

Gold certificates being receipts for gold coin, are redeemable in such coin by the Treasurer and all assistant treasurers of the United States.

Silver certificates are receipts for standard silver dollars deposited, and are redeemable in such dollars only.

"Coin" obligations of the Government are redeemed in gold coin when gold is demanded and in silver when silver is demanded.

Foreign Coins Not Legal Tender.

Section 3584 of the Revised Statutes of the United States provides that no foreign coins shall be a legal tender in the United States.

Denominations, Weight, and Fineness of the Coins of the United States.

GOLD.

Denomination.	Fine gold contained.	Alloy con- tained.*	Weight.
	<i>Grains.</i>	<i>Grains.</i>	<i>Grains.</i>
One dollar (\$1)	23.22	2.58	25.80
Quarter eagle (\$2.50)	58.05	6.45	64.50
Three dollars (\$3)	69.66	7.74	77.40
Half eagle (\$5)	116.10	12.90	129.00
Eagle (\$10)	232.20	25.80	258.00
Double eagle (\$20)	464.40	51.60	516.00

* The alloy neither adds to nor detracts from the value of the coin.

SILVER.

Denomination.	Fine silver contained.	Alloy con- tained.	Weight.
	<i>Grains.</i>	<i>Grains.</i>	<i>Grains.</i>
Standard dollar	371.25	41.25	412.50
Half dollar	173.61	19.29	192.90
Quarter dollar	86.805	9.645	96.45
Dime	34.722	3.858	38.58

Prior to the act of February 21, 1853, all silver coins were legal tender in all payments whatsoever. The act of February 21, 1853, reduced the weight of all silver coins of less denomination than the silver dollar about 7 per cent, to be coined on Government account only, and made them legal tender in payment of debts for all sums not exceeding \$5.

MINOR.

Denomination.	Fine copper contained.	Alloy con- tained.	Weight.
	<i>Grains.</i>	<i>Grains.</i>	<i>Grains.</i>
Five cents *	57.87	19.29	77.16
One cent†	45.60	2.40	48.

* Seventy-five per cent copper, 25 per cent nickel.

† Ninety-five per cent copper, 5 per cent tin and zinc.

Troy weights are used, and while metric weights are by law assigned to the half and quarter dollar and dime, troy weights still continue to be employed, 15,432 grains being considered as the equivalent of a gram, agreeably to the act of July 28, 1866.

The weight of \$1,000 in United States gold coin is 53.75 troy ounces, equivalent to 3.68 pounds avoirdupois. The weight of \$1,000 in standard silver dollars is 859.375 troy ounces, equivalent to 58.92 pounds avoirdupois, and the weight of \$1,000 in subsidiary silver is 803.75 troy ounces, equivalent to 55.11 pounds avoirdupois.

“There is many a man who would be deterred from dishonesty by the frown of a banker, though he might care but little for the admonitions of a bishop.”—Gilbart.

CHAPTER XV.

MONETARY SYSTEM OF THE U. S.

No. 2—Paper Money.

The first paper money ever issued by the Government of the United States was authorized by the acts of July 17 and August 5, 1861. The notes issued were called "demand notes," because they were payable on demand at certain designated subtreasuries. They were receivable for all public dues, and the Secretary was authorized to reissue them when received, but the time within which such reissues might be made was limited to December 31, 1862. The amount authorized by these acts was \$50,000,000. An additional issue of \$10,000,000 was authorized by the act of February 12, 1862, and there were reissues amounting to \$30,000. The demand notes were paid in gold when presented for redemption and they were received for all public dues, and these two qualities prevented their depreciation. All other United States notes depreciated in value from 1862 until the resumption of specie payments.

The act of February 25, 1862, provided for the substitution of United States notes in place of the demand notes, and the latter were therefore canceled when received. By July 1, 1863, all except \$3,770,000 had been retired, and nearly three millions of this small remainder were canceled during the next fiscal year. These notes were not legal tender when first issued, but they were afterwards made so by the act of March 17, 1862.

United States Notes.

The principal issue of United States paper money was officially called United States notes. These were the well-known "greenbacks" or "legal tenders." The act of February 25, 1862, authorized the issue of \$150,000,000, of which \$50,000,000 were in lieu of an equal amount of demand notes, and could be issued only as the demand notes were canceled. A second issue of \$150,000,000 was authorized by the act of July 11, 1862, of which, however, \$50,000,000 was to be a temporary issue for the redemption of a debt known as the temporary loan. A third issue of \$150,000,000 was authorized by the act of March 3, 1863. The total amount authorized, including the temporary issue, was \$450,000,000, and the highest amount outstanding at any time was \$449,338,902 on January 30, 1864. There are still outstanding \$346,681,016.

The reduction from the original permanent issue of \$400,000,000 to \$346,681,016 was caused as follows: The act of April 12, 1866, provided that United States notes might be retired to the extent of \$10,000,000 during the ensuing six months, and that thereafter they might be retired at the rate of not more than \$4,000,000 per month. This authority remained in force until it was suspended by the act of February 4, 1868. The authorized amount of reduction during this period was about \$70,000,000, but the actual reduction was only about \$44,000,000. No change was made in the volume of United States notes outstanding until after the panic of 1873, when, in response to popular demand, the Government reissued \$26,000,000 of the canceled notes.

This brought the amount outstanding to \$382,000,000, and it so remained until the resumption act of January 14, 1875, provided for its reduction to \$300,000,000. The process was, however, again stopped by the act of May 31, 1878, which required the notes to be reissued when redeemed. At that time the amount outstanding was \$346,681,016, which is the present amount. The amount of United States notes redeemed from the fund raised for resumption purposes since January 1, 1879, to June 30, 1908, was \$680,581,146; but the volume outstanding is undiminished because of the provisions of the act of May 31, 1878, which require the notes so redeemed to be paid out again and kept in circulation.

The act of March 14, 1900, also directed the reissue of United States notes when redeemed, but they must first be exchanged for gold as provided in the said act. The act also provides that when silver certificates of large denominations are canceled, and small denominations issued in their place, a like volume of small United States notes shall from time to time be canceled and notes of \$10 and upward issued in substitution therefor.

Gold Certificates.

The act of March 3, 1863, authorized the Secretary of the Treasury to receive deposits of gold coin and bullion in sums not less than \$20, and to issue certificates therefor in denominations not less than \$20, said certificates to be receivable for duties on imports. Under this act deposits of gold were received and certificates issued until January 1, 1879, when the practice was discontinued by order of the Secretary of the Treasury. The purpose

of the order was to prevent the holders of United States notes from presenting them for redemption in gold, and re-depositing the gold in exchange for gold certificates. No certificates were issued after January 1, 1879, until the passage of the bank act of July 12, 1882, which authorized and directed the Secretary of the Treasury to receive gold coin and bullion and issue certificates.

This act, however, provided that "the Secretary of the Treasury shall suspend the issue of gold certificates whenever the amount of gold coin and gold bullion in the Treasury, reserved for the redemption of United States notes, falls below one hundred millions of dollars." The act of March 14, 1900, reenacted this provision, and further provided that the Secretary may, in his discretion, suspend such issue whenever and so long as the aggregate amount of United States notes and silver certificates in the general fund of the Treasury shall exceed \$60,000,000. It provided further that of the amount of such certificates outstanding one-fourth, at least, shall be in denominations of \$50 or less. The amount of gold certificates now outside the Treasury is \$464,806,629. The act of July 12, 1882, made them receivable for customs, taxes, and all public dues.

Silver Certificates.

The act of February 28, 1878, authorizing the issue of the standard silver dollars, provided that any holder of such dollars might deposit them in sums not less than \$10 with the Treasurer or any assistant treasurer of the United States and receive certificates therefor, in denominations not less than \$10, said certificates to be receivable for customs, taxes, and all public dues. The act of

August 4, 1886, authorized the issue of the smaller denominations of \$1, \$2, and \$5. Silver certificates have practically taken the place in circulation of the standard silver dollars which they represent. The amount outside of the Treasury July 1, 1908, was \$405,581,977, while the amount of standard silver dollars outside the Treasury was only \$76,354,933. The act of March 14, 1900, provided that thereafter the issue of silver certificates should be limited to the denominations of \$10 and under, except that 10 per cent of the total volume of such certificates, in the discretion of the Secretary of the Treasury, may be issued in denominations of \$20, \$50, and \$100. Neither silver certificates nor silver dollars are redeemed in gold.

Treasury Notes, Act of July 14, 1890.

These notes were authorized by the act of July 14, 1890, commonly called the "Sherman Act." The Secretary of the Treasury was directed to purchase each month 4,500,000 ounces of fine silver at the market price, and to pay for the same with Treasury notes redeemable on demand in coin and legal tender for all debts, public and private, except where otherwise expressly stipulated in the contract. It was provided in the act that when the notes should be redeemed or received for dues they might be reissued, but that no greater or less amount of such notes should be "outstanding at any time than the cost of the silver bullion and the standard silver dollars coined therefrom, then held in the Treasury purchased by such notes."

The authority for the purchase of silver bullion under this act was repealed by the act of November 1, 1893, up

to which date the Government had purchased 168,674,-682.53 fine ounces, at a cost of \$155,931,002, for which Treasury notes were issued. The amount of Treasury notes redeemed in gold up to the close of the fiscal year 1908 was \$110,540,894 and the amount redeemed in standard silver dollars was \$84,393,976. Treasury notes redeemed in standard silver dollars are canceled and retired in accordance with the requirements of the act of 1890. Sections 5 and 8 of the act of March 14, 1900, also provide for the cancellation and retirement of Treasury notes to an amount equal to the coinage of standard silver dollars and subsidiary silver from the bullion purchased with such notes. The cancellation of notes on account of coinage since March 14, 1900, is \$66,555,026, so that there remained outstanding June 30, 1908, but \$4,982,000.

Fractional Currency.

When specie payments were suspended, about January 1, 1862, both gold and silver coins disappeared from circulation. The place of the subsidiary silver coins was for a time supplied by the use of tickets, duebills, and other forms of private obligation, which were issued by merchants, manufacturers, and others whose business required them to "make change." Congress soon interfered, and authorized, first, the use of postage stamps for change; second, a modified form of postage stamp called postal currency, and finally, fractional paper currency in denominations corresponding to the subsidiary silver coins. The highest amount authorized was \$50,000,000. The highest amount outstanding at any time was \$49,102,660.27, and the amount still outstanding,

though not in use as money, is \$15,245,183.88, of which \$8,375,934 is officially estimated to have been destroyed.

NATIONAL BANK CURRENCY.

Authorizing Act.

The issue of circulating notes by national banking associations was first authorized by an act entitled "An act to provide a national currency secured by a pledge of United States stock, and to provide for the circulation and redemption thereof," approved February 25, 1863, which act was repealed by an act entitled "An act to provide a national currency secured by a pledge of United States bonds, and to provide for the circulation and redemption thereof," approved June 3, 1864. The act approved June 3, 1864, with subsequent amendments thereof, was embodied in the Revised Statutes of the United States in 1873. The law as embodied in the Revised Statutes has been amended from time to time, and is now contained in what is known as the national-bank act, with amendments thereof.

Material amendments have been made to the national-bank act during the past few years. The first, dated March 14, 1900, authorized the formation of national banks with minimum capital of \$25,000; the issue of circulation to the par value of bonds deposited, and reduced the tax on circulation secured by 2 per cent bonds to one-fourth of 1 per cent semi-annually.

The act of June 22, 1906, authorized national banks to loan to one interest an amount not in excess of 10 per cent of the paid-in capital stock and surplus, the aggregate, however, not to exceed 30 per cent of the

capital, the original limitation being 10 per cent of the capital stock.

On January 26, 1907, an act was approved prohibiting national banks or other corporations organized by authority of any act of Congress from making money contributions in connection with political elections.

At the following session of Congress the banking law was further amended authorizing the organization of national currency associations and the issue to bank members of such associations of additional circulation on securities including commercial paper held by the national banking associations. The act further authorized the deposit with the Treasurer of the United States, in trust, of State, municipal, etc., bonds, as security for circulation, but provided that additional circulation can only be issued to banks having an unimpaired capital, and surplus equal to 20 per cent of the capital, and whose circulation secured by United States bonds amounts to at least 40 per cent of their capital stock. Additional circulation however, can only be issued at such times and under such conditions as, in the judgment of the Secretary of the Treasury, an increase in national-bank circulation is warranted.

Security.

Under the provisions of existing law (1910) a national bank is required to deposit interest-bearing bonds of the United States with the United States Treasurer as security for its circulating notes in the following minimum amounts:

1. Banks with a capital not exceeding \$150,000 must deposit bonds, par value, to an amount not less than one-fourth of their capital stock.

2. Banks with a capital exceeding \$150,000 must deposit bonds to the amount of at least \$50,000, par value.

Circulating notes are issued against United States bonds deposited as security therefor to the par value of the bonds or of the market value, if the bonds are below par, the maximum amount issuable on bonds being measured by the paid-in-capital stock.

Profits on Circulation.

Tables published annually by the Comptroller of the Currency show the profit arising from a bank investing its funds in bonds and taking out circulation thereon, compared with the profits from investment of the same funds at 6 per cent per annum. This profit varies with the cost of the bonds and the rates of interest current where a bank is located.

Profits on Capital Invested.

In the Comptroller's report for 1907 was a tabular statement showing the annual net earnings and dividends on the capital of national banks for the preceding thirty-eight years, based upon reports made to the Comptroller by the banks. The annual average net earnings and dividends paid were shown to be \$66,647,167 and \$50,660,236, respectively. The average rate of dividends for the thirty-eight years was 8.76 per cent, the average rate for the year 1905 being 9.02; for 1906, 10.4, and for the ten months ending July 1, 1907, 11.8.

Reports and Examinations.

Every national bank is required by law to make to the Comptroller not less than five sworn reports every year, showing in detail its resources and liabilities, and it is required to publish the reports in a local newspaper; also to make a sworn report of every dividend declared which also shows gross earnings, losses, expenses, and net profits.

The affairs of every bank are also examined about twice a year by an examiner, who verifies its assets and audits its accounts, and the examiner is empowered by law to examine every officer and employee of the bank under oath, if necessary, to find out its true condition.

Capital Based on Population.

A national bank may be organized by not less than five persons anywhere in the United States, subject to the following requirements as to capital and population.

1. With not less than \$25,000 capital in any place having 6,000 inhabitants or less.
2. With not less than \$50,000 capital in any city having 6,000 inhabitants or less.
3. With not less than \$100,000 capital in any city having over 6,000 but not more than 50,000 inhabitants.
4. With not less than \$200,000 capital in any city having over 50,000 inhabitants.

Amount of National-Bank Circulation.

The aggregate capital of the 7,453 national banks in the fiscal year 1915 was \$1,063,978,175, with a total surplus of \$714,117,131.

CHAPTER XVI.

THE FEDERAL RESERVE SYSTEM.

On June 23, 1913, President Wilson personally appeared before Congress and called public attention to the deficiencies in the existing system of banking and currency in the United States, at the same time urging prompt remedial legislation by the adoption of a bill providing for the establishment of a system of Federal Reserve Banks, designed "to give the business men of this country a banking and currency system by means of which they can make use of the freedom of enterprise and of individual initiative."

"We must have a currency," said the President, "not rigid as now, but readily, elastically responsive to sound credit, the expanding and contracting credits of everyday transactions, the normal ebb and flow of personal and corporate dealings. Our banking laws must mobilize reserves; must not permit the concentration anywhere in a few hands of the monetary resources of the country or their use for speculative purposes in such volume as to hinder or impede or stand in the way of other more legitimate, more fruitful uses. And the control of the system of banking and of issue which our new laws are to set up, must be public, not private, must be vested in the Government itself, so that the banks may be the instruments, not the masters, of business and of individual enterprise and initiative."

Congress took prompt action, following this message, and the Federal Reserve Bank Act became the law of the land by the signature of the President, on December 23, 1913. It provided for the establishment of not less than eight and not more than twelve Federal Reserve Banks, and on November 16, 1914, twelve such banks were accordingly established and began operation in the following cities, which had been selected as the Reserve cities for the twelve Reserve Districts established under the law:

District No. 1, Boston, Mass.; No. 2, New York, N. Y.; No. 3, Philadelphia, Pa.; No. 4, Cleveland, O.; No. 5, Richmond, Va.; No. 6, Atlanta, Ga.; No. 7, Chicago, Ill.; No. 8, St. Louis, Mo.; No. 9, Minneapolis, Minn.; No. 10, Kansas City, Mo.; No. 11, Dallas, Texas; No. 12, San Francisco, Cal.

A New Epoch in Banking.

With the adoption of the Federal Reserve Act, there was a general feeling that American business and banking had entered upon a new epoch. Many bankers throughout the country hastened to apply for membership in the respective Federal Reserve Districts and the sentiment among the banks was typically expressed by the directors of the National Copper Bank, who said: "As we watched the development of the Act in Congressional debate, we became impressed with the advantages to be gained through its operation, and our later and more careful study has only strengthened our earlier impressions.

"The great essentials—reserves, circulation, discounts, acceptances, refunding of bonds, foreign branches, farm

loans, clearing of transit items—are well provided for, but with a wisdom which recognizes the dangers of sudden change, and allows years in which to perfect the transferring of banking operations from the old course to the new. It is true there is great power centered at Washington, but the country's past experience with the Treasury Department has been such as to warrant confidence in the future policies of the Federal Reserve Board—the central controlling body established by the new Act.

“Doubtless there will be alterations in the Act from time to time, as experience points out better methods here and there, but in the main we believe the Act will stand the test, and marks the longest step forward that American business has taken in many a day.”

Although the Reserve Banks have not yet been subjected to any severe test, the belief is, in fact, general that the United States has now the best arrangement in its history for making the banking system responsive to the needs of trade and the monetary system elastic enough to prevent the recurrence of the once-dreaded panics, such as those of 1893 and 1907.

Main Features of the Act.

Under the new system the United States, as already indicated, is divided into twelve Federal Reserve Districts, each having a regional Federal Reserve Bank with a capital of at least \$4,000,000 subscribed by the member banks of the district. National banks are obliged to become members, while with State banks and trust companies membership is optional. There are no depositors in the Reserve Bank of a given district

except the member banks themselves and the United States Government. The Government under the Act no longer deposits its reserve funds in ordinary banks, as formerly, or lets them lie unused in the vaults of the sub-treasuries; but places them in the Federal Reserve Banks, subject to the supervision of the Federal Reserve Board at Washington, and to the direct authority over them of the Secretary of the Treasury.

The Act provided for an issue of \$500,000,000 of new Treasury notes of the United States, to be apportioned among the several Federal Reserve Banks, and to be supplied by them in turn to the ordinary member banks at such times as money is especially needed for the transaction of business, as when crops are being moved and so on. This supply of currency is secured by the banks depositing commercial paper with the Federal Reserve Bank.

How Panics Are to Be Prevented.

In ordinary times the business of banking goes on very much as before the passage of the new Act, and merchants and citizens can see little difference in conditions. The ordinary banks continue to be independent concerns, receiving deposits and lending money as before. But in exceptional times, as in 1907, a great difference will be visible. In the panic of 1907 the banks would not even allow a depositor to draw out his own money—much less would they make the customary loans on commercial paper, or other approved security, even to their most reliable customers. Thus, at the very time when the banks were most needed to aid and encourage business, they ceased their functions and only

magnified and intensified the business troubles that with a better and more elastic system they could have prevented. The first symptom of financial stress led every banker to protect his own reserves, lest he might become the victim of a "run." He lacked the support of a higher financial power, such as is provided by the Federal Reserve Bank system, which promises a complete remedy for such conditions, by supplying the funds to meet emergencies upon the deposit of ordinary commercial paper by the member banks. All the banks are now practically federated for mutual help under the auspices of a central Government board. For the first time our national banking system possesses the real strength that lies in unity.

Below we give a brief outline of the provisions of the new Act and the manner in which the Federal Reserve Bank was brought to the present state of development:

The Federal Reserve Act.

"An Act, to provide for the establishment of Federal Reserve Banks, to furnish an elastic currency, to afford means of re-discounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes."

Organization.

The organization and selecting of the Federal Reserve Cities was left in the hands of the Secretary of the Treasury, Secretary of Agriculture and the Comptroller of the Currency, this committee to designate not fewer than eight nor more than twelve cities to be known as

Federal Reserve Cities. The continental United States to be divided into districts, each district to contain only one of such Federal Reserve Cities, Alaska being excluded.

Each Reserve Bank must have a subscribed capital of not less than \$4,000,000.00.

Each Federal Reserve Bank may establish branch banks within the district in which it is located. Such branches shall be operated by a Board of Directors under rules and regulations prescribed by the Federal Reserve Board.

Federal Reserve Board.

A Federal Reserve Board is created which shall consist of seven members, including the Secretary of the Treasury and the Comptroller of the Currency, who shall be members ex-officio, and five members appointed by the President of the United States by and with the advice and consent of the Senate—not more than one member being selected from any one Federal Reserve district, the President to have due regard to a fair representation of the different commercial, industrial and geographical divisions of the country. The five members appointed shall devote their entire time to the business of the Federal Reserve Board and shall each receive an annual salary of \$12,000, payable monthly, together with actual necessary traveling expenses. The Comptroller of the Currency as ex-officio member shall, in addition to the salary now paid him as Comptroller, receive the sum of \$7,000 annually for his services as a member of said board.

Membership.

Every National bank must become a stockholder in the Reserve Bank of its respective district, and shall subscribe to the capital stock of the Federal Reserve Bank in a sum equal to six per centum of the paid up capital and surplus of such bank, payable as follows: One sixth on call, one sixth within three months, one sixth within six months and the remainder subject to call when deemed necessary.

State banks and Trust companies are not required to become members, membership being optional. Every shareholder of a Federal Reserve Bank shall be held responsible equally, and ratably, and not one for another, for all contracts, debts and engagements of such bank to the extent of the amount of their subscription to such stock at the par value thereof, which shall be \$100.00.

Public Subscription.

In the event that the subscription by National banks should be insufficient, the Organization Committee may offer to the public, at par, such an amount of stock as they may determine. No individual, co-partnership or corporation other than a member bank shall hold at any time more than \$25,000.00 par value of stock in any Federal Reserve Bank.

Board of Directors.

Every Federal Reserve Bank shall be conducted under the supervision and control of a Board of Directors who shall perform the duties usually appertaining to the office of directors of banking associations, and

shall be selected as hereinafter specified and consist of nine members holding office for three years and divided into three classes, designated as Class A, B and C.

Class A shall consist of three members who shall be chosen by and be representative of the stock holding banks.

Class B shall consist of three members who at the time of their election shall be actively engaged in their district, in commerce, agriculture, or some other industrial pursuit.

Class C shall consist of three members who shall be designated by the Federal Reserve Board.

Directors shall receive in addition to any compensation provided a reasonable allowance for necessary expenses in attending meetings of their respective board. Any compensation shall be subject to the approval of the Federal Reserve Board.

At the first meeting of the full Board of Directors it shall be the duty of the directors of Classes A, B and C, respectively, to designate one of the members of each class whose term of office shall expire in one year, from the first of January nearest to date of such meeting, one whose term shall expire at the end of two years, and one whose term shall expire at the end of three years from said date. Thereafter every director shall be chosen for a term of three years.

Depositors.

There are no depositors in the Reserve Bank of a district other than the members of the district and the United States Government.

Discount Operations.

Upon the indorsement of any of its member banks, with a waiver of demand, notice and protest by such bank, a Federal Reserve Bank may discount notes, drafts and bills of exchange arising out of commercial transactions. The Federal Reserve Board to have the right to determine or define the character of the paper thus eligible for discount. Notes, drafts, and bills admitted to discount under the terms above must have a maturity at the time of discount of not more than ninety days, provided that notes, drafts, and bills drawn or issued for agricultural purposes or based on live stock, and having a maturity not exceeding six months, may be discounted in an amount to be limited to a percentage of the capital of the Federal Reserve Bank to be ascertained and fixed by the Federal Reserve Board.

Any Federal Reserve Bank may discount acceptances which are based on the importation or exportation of goods and which have a maturity at time of discount of not more than three months and indorsed by at least one member bank. The amount of acceptances so discounted shall at no time exceed one-half of the paid up capital stock and surplus of the bank for which the discounts are made.

Earnings.

After all necessary expenses have been paid or provided for, the stockholders shall be entitled to receive an annual dividend of six per centum on the paid in capital stock, which dividend shall be cumulative. After all such dividend claims have been fully met, all the net earnings shall be paid to the United States as a franchise

tax, except that one-half of such net earnings shall be paid into a surplus fund until it shall amount to forty per centum of the paid in capital stock of such bank.

The Federal Advisory Council.

The Act provides for a Federal Advisory Council of twelve members (one representing each Federal Reserve District) who are appointed respectively by the directors of the Reserve Banks for a term of one year. This Council meets at least four times a year in Washington, D. C., and is empowered to confer with the Federal Reserve Board on general business conditions; to make oral or written representations concerning matters within the jurisdiction of the Board, and to call for information and make recommendations in regard to discount rates, rediscount business, note issues, reserve conditions in the various districts, the purchase and sale of gold or securities by Reserve Banks, and the general affairs of the reserve banking system.

Duties of the Reserve Board.

The Federal Reserve Board exercises a general supervision over the affairs and management of the Federal Reserve banks. It has the power to discount paper, issue Federal Reserve notes, and perform other banking functions prescribed by the law. It appoints its own officers and employes, and derives its support from assessments levied on the Reserve Banks. Its headquarters are in the Treasury Department at Washington.

Federal Reserve Agents.

In each district there is a Federal Reserve Agent, appointed by the Federal Reserve Board, who acts as chairman of the board of directors of a Reserve Bank, maintains a local office of the Federal Reserve Board, makes reports to that body and generally acts as its representative in that district. Thus the central Board is enabled to keep in close touch with business conditions in each district at all times and seasons.

The chief executive officer of each Reserve Bank is known as its governor, and is appointed as such by the directors of the bank. He presides at meetings of the executive committee, makes transfers of securities, and jointly with the cashier signs all certificates of stock of the bank. The other officers of each Reserve Bank (all chosen by the board of directors) consist of a first and second vice-governor and a secretary-treasurer or cashier.

Influence of the New System.

The advantages of the Federal Reserve system began to be apparent very soon after its establishment. Thus, in their first annual report to the Federal Reserve Board, the directors of the Federal Reserve Bank of Chicago said: "This bank opened on November 16, 1914, just as business was beginning to recover from the shock occasioned by the declaration of war in Europe. After that date the steadying and quieting influence of the Federal Reserve system began to be felt and a quick reduction began in the high rates of interest then prevailing. By January 1, 1915, a better tone was apparent."

Regarding the discounting (or re-discounting) of commercial paper by the member banks, this typical report said:

"It is the policy of the bank to lend liberal assistance to deserving banks for seasonal or emergency purposes, and on the other hand to discourage any tendency toward over-expansion.

"From the outset, the officers have undertaken by correspondence and by personal interview to familiarize member banks with the procedure in discounting, which has been made as simple and expeditious as possible, all unnecessary formality being eliminated."

Importance to the Community.

Of the importance to the community of the new banking system and safeguard, the Chicago directors said:

"Notwithstanding the almost negligible demands on most of them for either credit or currency, the Federal Reserve Banks have performed an important function in the creating of confidence and in stabilizing the financial structure of the country. During the several very critical periods this year the system fully demonstrated its worth, inspiring confidence and banishing fear, and forestalling panic from the mere fact of its existence.

Attitude Toward Member Banks.

"The Federal Reserve Bank of Chicago belongs to its members. They have furnished the entire capitalization and are the sole depositors, they have elected six of the nine directors and the directors in turn have elected all the officers of the bank except the chairman of the Board. Furthermore, the Federal Reserve Board has

stated its policy to be that it does not desire to interfere with the management of the banks except to see that the law is observed. Therefore, the attitude toward member banks is one of cordial co-operation for the purpose of securing for them and through them for the business community and the public every advantage intended and possible under the Act.

“Co-operation between the Federal Reserve Banks also has been evidenced by the organization of a conference of Governors for the purpose of considering problems and questions that have arisen, and exchanging views in order that all may have the benefit of the views of each.”

A Great Constructive Measure.

“The Federal Reserve Act became a law as a great, far-reaching constructive measure to bring co-ordination and unity, consolidation and central control, out of our separated commercial banks under individual control,” said a Reserve Bank director (Mr. E. L. Johnson) to a group of Iowa bankers after the first year’s experience of the operation of the Act. “It does this and more. The Federal Reserve Banking system forms a financial base on which commercial business may depend in its expansion and extension into new fields. Producers and dealers in commodities need no longer fear an inadequate money market on which to float commercial paper. The new banks created are not supposed to do any business of moment or to initiate anything. All that is left to the public, and all banking is to be done as before through the already existing banks. The new system provides a place, a fund, a means of creating credit, a

system of exchanges, designed to be equal to any emergency which the commercial banks of the country will have to face, and to supply all the fair, legitimate needs of commerce now apparent.

“The great object of the Act is to aid business—its regulation of banks is because they are instruments and most important aids of commerce.”

Under the Reserve Bank system, the assurance the member banks have is the assurance to the management that they can always cash in their commercial notes and meet their obligations in any emergency; the assurance to the depositor that his money will be paid to him on demand in cash in any emergency; the assurance to their commercial borrowers that they will not be compelled to shut down for lack of funds to buy goods or material, or of currency for their payrolls.

Practical Guarantee of Deposits.

The original National Bank Act provided for supervision of banks, and its amendments increased the efficiency of this supervision. The Federal Reserve Act provides additional safeguards. The Comptroller of the Currency said: “Under the provisions of the new law, the failure of efficiently managed banks is practically impossible.”

The more stringent oversight and regulation provided by the Act gives a hope, at least, that every member bank is solvent, and will so remain or be compelled to close; and that, should it close, its assets will pay its liabilities; that is, practically it gives every depositor in a member bank additional assurance that his money in the bank is safe.

CHAPTER XVII.

MONETARY EVENTS SINCE 1786.

1786.—Establishment of the double standard in the United States with a ratio of 1 to 15.25; that is, on the basis of 123.134 grains of fine gold for the half eagle, or \$5 piece, and 375.64 grains of fine silver for the dollar, without any actual coinage.

1792.—Adoption of the ratio of 1 to 15 and establishment of a mint with free and gratuitous coinage in the United States; the silver dollar equal to $371\frac{1}{4}$ grains fine, the eagle to $247\frac{1}{2}$ grains fine.

1803.—Establishment of the double standard in France on the basis of the ratio of 1 to $15\frac{1}{2}$, notwithstanding the fact that the market ratio was then about 1 to 15.

1810.—Introduction of the silver standard in Russia on the basis of the ruble of 17.99 grams of fine silver, followed in 1871 by the coinage of imperials, or gold pieces of 5 rubles, of 5.998 grams; therefore, with a ratio of 1 to 15. This ratio was changed by the increase of the imperial to 5 rubles 15 copecks, and later to 1 to 15.45.

1815.—Great depreciation of paper money in England, reaching $26\frac{1}{2}$ per cent in May. Course of gold, £5 6s and of silver $71\frac{1}{2}$ d per ounce standard. In December the loss was only 6 per cent; gold at this period was quoted at £4 3s and of silver at 64d.

1816.—Abolition of the double standard in England, which had had as its basis the ratio of 1 to 15.21, and adoption of the gold standard on the basis of the pound sterling at 7.322 grams fine in weight.

Coinage of divisional money at the rate of 66d per ounce. Extreme prices, £4 2s for gold and 64d for silver in January, £3 18s 6d and 59 $\frac{1}{4}$ d in December.

Substitution for the ratio of 1 to 15.5 in Holland, established by a rather confused coinage, of the ratio of 1 to 15 $\frac{7}{8}$.

1819.—Abolition of forced currency in England. Price of gold, £3 17s 10 $\frac{1}{2}$ d and of silver 62d per ounce in October, against £4 1s 6d and 67d in February. (The price of silver given hereafter represents the average rate per ounce standard—that is, the mean between the highest price and the lowest price quoted during the year.)

1832.—Introduction of the monetary system of France in Belgium, with a decree providing for the coinage of pieces of 20 and 40 francs, which, however, were not stamped. Silver, 59 $\frac{3}{4}$ d.

1834.—Substitution of the ratio of 1 to 16 for that of 1 to 15 in the United States by reducing the weight of the eagle, ten-dollar gold piece, from 270 grains to 258 grains.

In 1837 the fineness of the United States gold coins was raised from .899225 to .900, and the silver coins from .8924 to .900, giving a ration of 1 to 15.988, and fixing the standard weight of the silver dollar at 412 $\frac{1}{2}$ grains. Silver, 59 11-16d.

1835.—Introduction of the company rupee, a piece of silver weighing 165 grains fine, in India in place of the sicca rupee. Creation of a trade coin—the mohur, or piece of 15 rupees—containing 165 grains of fine gold. Silver, 59 11-16d.

1847.—Abolition of the double standard in Holland by the introduction of the silver standard on the basis of a 1-florin piece .945 grams fine, the coinage of which had already been decreed in 1839. Silver, 59 11-16d.

1847.—Discovery of the gold mines of California.

1848.—Coinage in Belgium of pieces of 10 and 25 francs in gold, a shade too light. These pieces were demonetized and withdrawn from circulation in 1884. Silver, 59½d.

1848.—Replacing the ratio of 1 to 16 in Spain, which had been in force since 1786, by that of 1 to 15.77.

1850.—Introduction of the French monetary system in Switzerland without any actual coinage of gold pieces. Silver, 60 1-16d.

1851.—Discovery of the gold mines in Australia.

1853.—Lowering of the weight of silver pieces of less value than \$1 to the extent of 7 per cent in the United States and limitation of their legal-tender power to \$5. Silver, 61½d.

1853.—Maximum of the production of gold reached in California when it amounted to \$65,000,000.

1854.—Introduction of the gold standard in Portugal on the basis of the crown of 16.257 grams fine. Before this period the country had the silver standard, with a rather large circulation of gold coins stamped, on the

basis of 1 to $15\frac{1}{2}$ in 1835 and 1 to $16\frac{1}{2}$ in 1847. Silver, $61\frac{1}{2}$ d.

1854.—Modification of the ratio of 1 to 15.77 in Spain by raising it to 1 to 15.48, and by lowering the piaster from 23.49 grams to 23.36 grams fine.

1854.—Introduction of the silver standard, as it existed in the mother country, in Java, in place of the ideal Javanese money, and coinage of colonial silver pieces.

1857.—Conclusion of a monetary treaty between Austria and the German States, in accordance with which 1 pound of fine silver (one-half a kilogram) was stamped into 30 thalers, or $52\frac{1}{2}$ florins of south Germany, or 45 Austrian florins, resulting in 1 thaler equaling $1\frac{3}{4}$ German florins, or $1\frac{1}{2}$ Austrian florin. Silver, $61\frac{3}{4}$ d.

1861.—Law decreeing the coinage of gold pieces of 10 and 20 francs exactly equal to French coins of the same denomination in Belgium. Silver, $61\frac{3}{4}$ d.

1862.—Adoption of the French monetary system by Italy. Silver, 61 7-16d.

1865.—Formation of the Latin Union between France, Belgium, Switzerland and Italy on the basis of a ratio of 1 to $15\frac{1}{2}$. Silver, 61 1-16d.

1868.—Adoption of the French monetary system by Roumania, with the exclusion of the 5-franc silver piece, which was, however, stamped in 1881 and 1883. Silver, $60\frac{1}{2}$ d.

1868.—Admission of Greece into the Latin Union. The definite and universal introduction of the French monetary system into the country was effected only in 1883.

1868.—Adoption of the French monetary system, with the peseta or franc as the unit, by Spain. The coinage of gold alphonsoes d'or of 25 pesetas was made only in 1876.

1871.—Replacing of the silver standard in Germany by the gold standard. Coinage in 1873 of gold pieces of 5, 10 and 20 marks pieces, the latter weighing 7.168 grams fine. Silver, 601½d.

1871.—Establishment of the double standard in Japan with the ratio of 1 to 16.17 by the coinage of the gold yen of 1.667 grams and of the silver yen of 26.956 grams, both with a fineness of .900.

1873.—Increase of the intrinsic value of the subsidiary coins of the United States. Replacing of the double standard by the gold standard. Reduction of the cost of coinage of gold to one-fifth per cent, the total abolition of which charge was decreed in 1875. Creation of a trade dollar of 420 grains, with a fineness of .900. Silver, 591¼d.

1873.—Suspension of the coinage of 5-franc pieces in Belgium.

1873.—Limitation of the coinage of 5-francs on individual account in France.

1873.—Suspension of the coinage of silver in Holland.

1873.—Formation of the Scandinavian Monetary Union. Replacing of the silver standard in Denmark, Sweden and Norway by that of gold on the basis of the krone. Coinage of pieces of 10 and 20 kroner, the latter weighing 8.961 grams, with a fineness of .900.

1874.—Introduction of the system of contingents for the coinage of 5-franc silver pieces in the Latin Union. Silver, 58 5-16d.

1875.—Suspension of the coinage of silver on individual account in Italy. Silver, 567/8d.

1875.—Suspension of the coinage of silver on account of the Dutch colonies.

1875.—Introduction of the double standard in Holland on the basis of the ratio of 1 to 15.62 by the creation of a gold piece of 10 florins, weighing 5.048 grams fine, with the maintenance of the suspension of the coinage of silver.

1876.—Great fluctuations in the price of silver, which declined to 46³/₄d., representing the ratio of 1 to 20.172, in July. Recovery in December to 58¹/₂d. Average price, 52³/₄d.

1877.—Coinage of 5-franc silver pieces by Spain continued later, notwithstanding the decline of silver in the market. Silver, 54³/₄d.

1877.—Replacing of the double standard in Finland by that of gold on the basis of the mark or franc.

1878.—Act of United States Congress providing for the purchase, from time to time, of silver bullion, at the market price thereof, of not less than \$2,000,000 worth per month as a minimum, nor more than \$4,000,000 worth per month as a maximum, and its coinage as fast as purchased into silver dollars of 412¹/₂ grains. The coinage of silver on private account prohibited. Silver, 52 9-16d.

1878.—Meeting of the first international monetary conference in Paris. Prolongation of the Latin Union to January 1, 1886.

1879.—Suspension of the sales of silver by Germany. Silver, 51¹/₄d.

1881.—Second international monetary conference in Paris. Silver, 51 11-16d.

1885.—Introduction of the double standard in Egypt. Silver, 48 $\frac{3}{8}$ d.

1885.—Prolongation of the Latin Union to January 1, 1891.

1886.—Great decline in the price of silver, which fell in August to 42d., representing a ratio of 1 to 22.5, and recovery in December to 46d. Modification of the coinage of gold and silver pieces in Russia. Silver, 45 $\frac{3}{8}$ d.

1887.—Retirement of the trade dollars by the government of the United States in February. Demonetization of the Spanish piasters, known as Ferdinand Carolus, whose reimbursement at the rate of 5 pesetas ended on March 11. New decline of silver in March to 44d., representing the ratio of 1 to 21.43. Silver, 44 $\frac{5}{8}$ d.

1890.—United States: repeal of the act of February 28, 1878, commonly known as the Bland-Allison law, and substitution of authority for purchase of 4,500,000 fine ounces of silver each month, to be paid for by issue of treasury notes payable in coin. (Act of July 14, 1890.) Demonetization of 25,000,000 lei in pieces of 5 lei in Roumania in consequence of the introduction of the gold standard by the law of October 27. Silver, 47 11-16d.

1891.—Introduction of the French monetary system in Tunis on the basis of the gold standard. Coinage of national gold coins and billon. Silver, 45 1-16d.

1892.—Replacing of the silver standard in Austria-Hungary by that of gold by the law of August 2. Coinage of pieces of 20 crowns, containing 6,098 grams

fine. The crown equals one-half florin. Meeting of the third international monetary conference at Brussels. Production of gold reaches its maximum, varying between 675,000,000 and 734,000,000 francs. Silver, 39 13-16d.

1893.—Suspension of the coinage of silver in British India and of French trade dollars on individual account. Panic in the silver market in July in London, when the price fell to 30½d., representing the ratio of 1 to 30.92. Repeal of the purchasing clause of the act of July 14, 1890, by the Congress of the United States.

1895.—Adoption of the gold standard by Chile.

1895.—Russia decides to coin 100,000,000 gold rubles in 1896.

1896.—Costa Rica adopts the gold standard.

1896.—Russia decides to resume specie payments.

1897.—Adoption of the gold standard by Russia and Japan.

1897.—Peru suspends the coinage of silver and prohibits its importation.

1898.—Ecuador limited the tender of silver coins to the amount of 10 sucres.

1899.—India adopted the gold standard at the rate of 15 rupees to 1 pound sterling (British standard).

1900.—United States adopted the gold standard.

1900.—Ecuador adopted the gold standard.

1901.—San Domingo adopted United States gold as standard.

1902.—Siam adopted the gold standard.

1903.—Colombia adopted gold standard.

1903.—Philippines adopted the gold standard.

1904.—Panama adopted gold standard.

1905.—Mexico adopted the gold standard.

1908.—Creation of a National Monetary Commission in the United States to report upon desirable changes in the monetary system.

1909.—December 21, special report to Congress by the Monetary Commission on the condition of the 25,000 banks in the United States.

1913.—Approval of Banking and Currency Act for the United States, establishing a system of Federal Reserve Banks, under the supervision of a Federal Reserve Board and designed to furnish a more elastic currency for commercial purposes.

1914.—Establishment of twelve Federal Reserve Banks, in principal banking centers of the United States, under the provisions of the Act of 1913.

“The average statement required by a city bank makes a borrower dig down to the blunt reality. He may have been deluding himself, but if he answers the questions honestly he often finds he must discount his former estimates heavily.”

CHAPTER XVIII.

FOREIGN EXCHANGE.

BY H. K. BROOKS.*

Part I.

While foreign-exchange transactions are generally regarded as being quite complicated, and there are some operations requiring experience and patient study, the system as a whole cannot be said to be any more intricate than many of the problems daily arising in mercantile business.

Comparatively few persons have a thorough knowledge of the subject and this may perhaps be attributed to the fact that until recent years the business was confined to the leading banks at large trade centers. Other banks having call for foreign drafts, letters of credit, or other foreign paper would obtain the same from the large banks mentioned or refer customers to them direct.

The enormous growth of our import business, the large increase in foreign travel, and the extension of our trade to nearly every country in the world so greatly increased the volume of foreign exchange transactions that it naturally invited competition, and today almost every bank and financial institution at a place of any importance is equipped with the facilities necessary to meet the demand for this class of business of its patrons.

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Foreign Departments Supersede Brokers.

American merchants who formerly imported goods from foreign countries through brokers at seaport cities now have foreign departments for the transaction of the business direct. Our manufacturers, who formerly did not think of looking beyond the limits of this country for a market for their goods, have learned, through a better knowledge of the conditions, that they can successfully compete with foreign manufacturers. Our war with Spain is said to have opened the eyes of our manufacturers to the fact that there was a vast population outside of the United States who were dependent for many commodities upon countries which were in no better position, geographically or otherwise, to supply their needs; and if we judge from the large increase in our exports since the war, there was, no doubt, some foundation for the statement.

An Opportunity for Students.

In an article published in one of the leading financial papers—The New York Financier—it was stated that the demand among bankers and large mercantile houses for young men having a general knowledge of foreign exchange and foreign shipping very greatly exceeds the supply; that students fitting themselves for mercantile life should devote as much study as possible to this branch, since it would be a very valuable acquisition to their fitness for the present commercial business, and at the same time insure a higher appreciation and greater salary for their services than is usually paid for other branches of either mercantile or banking business.

What Foreign Exchange Is.

Foreign exchange is a system by which commercial nations discharge their debts to each other. This indebtedness may represent the value of commodities exported to or imported from other countries, money borrowed, loaned, or invested abroad, and the interest or profits on such funds; the cost for transportation of goods and the commissions for service; the expense incurred in traveling in foreign countries; in fact, any transactions which involve the remitting of money, or anything representing money, from one country to another. These debts have to be paid, either with cash or something equally satisfactory to the creditors. The cost of transmitting gold or currency, and the risk attending the same, while sometimes resorted to, are generally considered too great, and it is to avoid this risk and expense that the system of exchanging debts through the medium of commercial paper is adopted.

Magnitude of Foreign Trade.

One can hardly appreciate the magnitude of the business between the United States and foreign countries which, directly or indirectly, is transacted through the medium of the system we term "foreign exchange," without resorting to actual data in the shape of figures, and we find these figures so large as to be almost incomprehensible.

For the twelve months ending June 30, 1908, the value of the goods or commodities exported from this country to other countries amounted to \$1,860,773,346, and during the same period the United States imported from

other countries goods to the value of \$1,191,341,792, making a total of exports and imports during the fiscal year 1908 of \$3,055,115,138—a sum which, if the \$1 bills were fastened together at their ends, would make a band nearly 350,000 miles long.

The value of the goods we exported exceeded the value of those imported by \$666,431,554, which amount of credit in our favor would, had there been no other transactions to offset it, have to be remitted to us from the various foreign countries. But against this credit in our favor foreign countries charged up to us the amount paid out on letters of credit used by our people to meet expenses in travel abroad—balance due on loans made by our capitalists to float large enterprises, such as railroad consolidations, etc., so that, notwithstanding there was a large balance due us in the difference between the value of the goods we sold to, and those we purchased from foreign countries, it was partially offset by other transactions, so that in fact, during the year 1908 we imported only \$75,904,397 more gold than we exported. Sometimes we export more gold than we import during the fiscal year. But whether the balance be in our favor or against us, the total amount of the business transacted is practically all handled through the medium of the system we call “foreign exchange,” and the importance of a thorough knowledge of the system in its various details is becoming greater each year.

Knowledge of Monetary Systems.

A knowledge of the moneys of account, or monetary systems, of the various foreign countries is one of the first things necessary to a clear understanding of foreign-exchange transactions.

Paper moneys, such as government and bank notes and certificates, are, as a rule, intended solely for circulation within the country in which issued, and are not legal tender outside of the country from which they emanate. Of course, paper money is often accepted in small amounts for its full face value in other countries, but it is always optional with the creditor to accept it.

Silver and minor coins are also intended for domestic use, and when accepted in other countries it is at their actual value rather than at their face value. For illustration: The purchasing power of the silver dollar of the United States within this country is as great for small sums as that of the gold dollar, but in other countries it would be accepted only for its bullion value. The Mexican dollar, which passes for its face value in Mexico, is worth less than fifty cents in this country.

The Only International Money.

Gold, by virtue of commercial usage and the laws of the various countries of the world, may be said to be the only international money, and its purchasing power is practically the same all over the civilized world. But it must be remembered that the value of gold coins is not always as expressed on their face. In large international transactions the weight of the mass is regarded, and not the number of pieces, and their value depends upon the weight and fineness. By "fineness" is meant pure metal. Nearly all coins contain alloy, or inferior metal which is added to increase their durability.

The value or price of the gold money of account of commercial countries is determined by the weight and fineness of the metal contained therein, which weight and

fineness are established by the mint laws of the country issuing the money. It is therefore essential that the standard of weight by which the various moneys of account are established shall be unvarying and have the highest legal sanction; otherwise there could be no stability of values and no such thing as accurate deductions of pars of exchange. Gold is the only commodity in the world the value of which is established by law.

The price of gold cannot be affected either by an abundance or scarcity of the supply. No matter how large the supply, our mints, or the Bank of England, will buy it at the price established by law; and although there is no international agreement to maintain the price, the fact that gold is accepted by the chief commercial nations as the one universal measure of values, operates to prevent any attempt to change its valuation. The price of diamonds, which are more valuable than gold, is affected by the supply and demand. Silver, used extensively as money, fluctuates in price like any commodity, the supply and demand governing its value.

How Gold Shipments Are Handled.

As gold shipments between the United States and foreign countries, particularly Europe, are an important factor in foreign-exchange transactions, it is well to learn how they are handled and the expense attending them.

Whether in coined pieces or bars (bullion), the gold is packed in strong kegs or boxes, securely strapped with hoop iron, and carefully sealed with private seals; the latter to discover if tampered with en route. Space is

chartered from the steamship company, as in the case of merchandise, although nearly all large fast steamers have rooms especially constructed for such valuable cargo. At a cost of $\frac{3}{16}$ of 1 per cent, or \$1,875 for each million dollars in value, the shipper has the gold insured against loss. The steamship company charges for carrying the shipment as freight a rate of about $\frac{1}{8}$ per cent of its value, or about \$1,250 for each million dollars. As an extra safeguard in case of large shipments, the steamship company details special armed men to guard the room day and night, and sometimes the shipper employs special detectives in citizen's clothes to watch the passengers on the trip, since it is generally known several days in advance when large shipments of gold are to be made.

Commercial Bars of Gold.

In accordance with the United States Mint regulations, a charge of four cents per \$100 is made for what are known as commercial bars of gold, which are from 990 to 997 thousandths fine. The shipper has to pay for these bars with gold coin, which is obtainable without charge at the Subtreasury in exchange for gold certificates or for legal-tender notes. There is no restriction upon the withdrawals of gold from the Subtreasury for export, and the shipper has the option of taking coined pieces, if he prefers, but the loss by abrasion of coined pieces practically equals the cost of 4 cents per \$100 charged by the mint for commercial bars, which are put up in that shape to induce exporters to take bars instead of coined pieces, and thus save the government the cost of coinage as well as the transportation of the bullion to the mint.

“Money of Account.”

It is not necessary to recall here the names and denominations of all the coins or money used in the various foreign countries. I shall simply give the money of account of the principal countries. By “money of account” we mean the kind of money in which the people keep their accounts, as, for example, we keep our accounts in dollars and cents.

Commencing with North America, we have, in addition to the United States, Canada, Mexico, Central America, and we will include the West Indies.

Canada.—Notwithstanding that Canada is a British colony, its trade relations with the United States were too important to admit of the adoption of the complicated British monetary system, and the accounts are kept in dollars and cents as in the United States. The United States “gold eagle” (\$10) and the British “pound” or “sovereign” are legal tender for all amounts.

Mexico.—Mexico’s money of account is the peso, or dollar, of 100 centavos, or cents—worth 40 to 50 cents in our money. Being one of the chief silver-producing countries of the world, the greater part of its coinage is exported to China, the Philippines, and Central and South America, in which countries the Mexican peso, or dollar is the favorite coin.

Central America.—The Central American states all have for their unit of money the peso of 100 centavos—not exactly like the Mexican peso, but more like the peso of the South American States, which is similar to the French system—their unit being equal to about 5 francs.

West Indies.—There are many islands comprising the group known as the West Indies. Porto Rico is now owned by the United States, and Cuba was until recently practically controlled by us. In both islands efforts are being made to supplant the Spanish peseta with the American dollar as the money of account. Most of the other islands are possessions or colonies of European countries, and as a rule keep their accounts in the money of their mother-country.

South America.—In South America, Uruguay, Paraguay, the Argentine Republic, Colombia, and Chili use the peso of 100 centavos, as in Central America. Brazil uses the milreis of 1,000 reis; Peru, the sol of 10 dineros, each dinero being equal to 10 centavos, or cents; Bolivia calls its unit the boliviano of 100 centavos, and Ecuador, the sucre of 100 centavos. The value of their units in our money fluctuates, but is approximately 50 cents.

In drawing drafts on Central and South America, and to some extent on Mexico, they are for United States dollars payable in New York, which are, of course, cashed in the money of the country where payable, at the current rate of exchange on New York.

Africa.—In Africa, Egypt's money of account is the Egyptian pound of 100 piastres, which, although of greater value intrinsically, is worth less commercially than the British pound sterling. Algeria is a French colony and uses the French system; and the same is true of Madagascar, the third largest island in the world. Cape Colony, Natal, the Transvaal, Orange River Colony, Sierra Leone, and Zanzibar are British colonies and use the English pound sterling as their unit.

Oceanica.—In Oceanica, the islands of Australia, New Zealand, Tasmania, and a portion of Borneo use the British pound sterling by reason of being British colony, Sierra Leone, and Zanzibar are British colonies and use the gulden or guilder.

Japan.—Japan's money of account is the yen of 100 sen—which formerly was worth about \$1, but in 1898 its value was reduced to about 50 cents.

Philippine Islands.—In the Philippines, although now possessions of the United States, preference is given to the Mexican dollar as formerly, which is worth in our money from 45 to 50 cents, according to the market price for silver.

India.—British India, with its population of nearly 240,000,000—nearly three times that of the United States—has for its money of account the rupee of 16 annas, the anna being equal to 4 pice and 1 pice equal to 3 pie—not “the kind of pie our mothers used to make.” The value of the rupee in our money is about 33 cents. India, being a very poor country, uses coins of very small value, the smallest coin (the pie) being worth about $\frac{1}{4}$ cent in our money.

Hong Kong.—Hong Kong is a small island just off the coast of China. Victoria, the capital, and practically the only place there, has a population of nearly 200,000. Most of the trade of China with the rest of the world is done through Victoria, or, as we know it best, Hong Kong. The money of account of Hong Kong is the dollar of 100 cents, but, as in other oriental countries, the Mexican dollar is preferred to the local currency.

China.—China has several kinds of money—the dollar of 100 cents; also a silver coin called the tael. The latter varies in value according to the locality and the price of silver in London. But the Mexican dollars constitute the principal circulating medium. In fixing the valuation of the Haikwan tael for the purpose of adjusting the Chinese indemnity, resulting from the war after the Boxer rebellion there, the plenipotentiaries made the equivalent in American money $74 \frac{2}{10}$ cents.

Like India, China is a very poor country, and the coins most extensively used are of very small value. They have a coin called “cash,” about the size of our silver quarter (25-cent piece) made of copper and zinc, with a square hole in the center. One thousand of these are issued on a string—that’s what the hole is for—the lot being equivalent to about \$1 in our money, or $\frac{1}{10}$ of a cent each.

European Moneys.

I have now given a general idea of the kinds of money in use in the countries of North and South America, Asia, Africa, and the principal islands of the Atlantic and Pacific oceans. We now come to Europe, with which our financial and trade relations are of more importance than all the others combined.

France, Belgium, Switzerland, Italy, Greece, Spain, Rumania, Servia, Bulgaria, Finland, and Austria-Hungary have the same, or very similar, monetary systems, the first five countries named comprising what is known as the “Latin Union countries”—a union formed for the adoption of a uniform monetary system. The other countries adopted the same system, but are not members of the union.

France, Belgium, and Switzerland call their unit the franc, which is divided into 100 centimes. Italy calls the franc, or unit, the lira of 100 centesimi. Greece uses the unit named dracma of 100 lepta; Spain the peseta of 100 centimos; Rumania, the lei of 100 bani; Servia, the dinar of 100 paras; Bulgaria, the lew of 100 stotinkas; Finland, the finmark of 100 cents; and Austria-Hungary, the crown, or krone, of 100 heller. All these units are practically the same as the franc of France with different names, their actual mint valuation (except Austria-Hungary) being just the same, 19.3 cents.

Germany's money of account is the reichsmark, or mark, as we call it, of 100 pfennige. A mark is worth about 24 cents in our money.

Norway, Sweden, and Denmark, known as the Scandinavian countries, have for their unit the krone, or crown, of 100 ores, its value in our money being about 27 cents.

Holland has the gulden or guilder of 100 cents, worth about 40 cents in our money.

Russia uses for its unit, the ruble of 100 kopecks worth about 52 cents in our money.

Portugal, like Brazil, has for its unit the milreis, equal to 1,000 reis, its value in our money being about \$1.08.

The British System.

Foremost among all nations of the earth in the magnitude of its commerce, its vast colonial possessions and dependencies, and consequently its importance as the chief financial center, Great Britain furnishes the most interesting study of the money of the world. Every school child can tell you the money of account of Great Britain. To us it seems a complicated, cumbersome sys-

tem. The pound sterling is equal to 20 shillings, each shilling being equal to 12 pence, and each penny equal to 4 farthings. Without exception the sovereign is the most universally recognized coin, and, except the Egyptian pound, it is the largest of units of money. Its actual value in our money is about \$4.87.

“Sterling” Exchange.

Probably more foreign exchange is drawn in sterling—here and in other countries as well—than in the money of all other countries combined. This is due, however, to the fact that London is the financial center of the world, and exchange on that city is generally acceptable, if not preferred. For the same reason probably 90 per cent. of all letters of credit issued throughout the world are drawn in English money.

The term “rate of exchange” means the value or the price of the money of one country reckoned in the money of any other country, the value being a fixed rate of exchange, the price a fluctuating rate of exchange.

The rate of exchange quoted between any two countries is for drafts, checks, or bills of exchange, and the price includes, besides the actual equivalent of the standard coin, some allowance for interest according to the tenor of the draft, and a premium which the seller demands for the economy and superior conveniences of his draft or check as compared with a remittance in currency or bullion. This premium, which represents the fluctuation, is more or less according to the amount of exchange in the market for sale and the demand for the same.

Two Kinds of Exchange.

There are two kinds of exchange—*direct* and *arbitrated*. Direct is when between any two countries; arbitrated, when between two places in different countries through the medium of some other place in another country; or, to express it more clearly, the remitting of money to one country through another country, or the buying of exchange of one country through another.

The occasion for the arbitration of exchange will arise when the rate of exchange here direct upon a country to which you wish to remit is much higher than between that country and another country near by.

For illustration: Through the financial columns of our daily papers, or by tabled information direct, the rate for a check in London on Paris or Berlin, or vice versa, is furnished. It generally reads, for example, this way: "Exchange on Paris F. 25.12; exchange on Berlin M. 20.42." This signifies that you can buy in London, for instance, a check payable in Paris at the rate of 25 francs 12 centimes per pound sterling, or on Berlin at the rate of 20 marks 42 pfennige per pound sterling. Therefore, if you had occasion to remit a large sum to, say, Berlin, and you found you could buy a check on London and have the amount remitted from London to Berlin cheaper than you could remit to Berlin direct, the transaction would be termed "arbitration of exchange." All large banking houses and jobbers of foreign exchange watch the quotations on exchange between countries very closely, and always avail themselves of any advantage to be gained by remitting to one country through another.

The Rate of Exchange.

The fluctuation in the price of exchange, or, as it is termed, "the rate of exchange," is due to a number of causes. If the value of the goods we exported greatly exceeded the value of the goods we imported during a certain period, the large balance due us from other countries would, if there were no other international transactions to offset them, cause the price of exchange here to be lower, for the reason that there would be less demand for remittance to foreign countries, since it is always the difference between the debits and credits that is remitted. On the other hand, if we owed foreign countries a much greater amount than they owed us, exchange here would be higher by reason of increased demand for it.

But it is not alone our foreign commercial trade that regulates the price of exchange. The monetary conditions here and abroad may entirely offset other conditions.

When the loaning rate for money here is high, capitalists and bankers will loan their money here, instead of investing in foreign commercial bills, which causes less demand for bills, hence lower rates. If rates for money abroad are high, there will be a greater demand for commercial bills or other exchange on foreign countries, for the purpose of getting their money to those countries to take advantage of such high rates, thereby causing higher rates. If the rates for money abroad are lower than here, our capitalists and bankers would borrow money in their markets for investment here, thus increasing our indebtedness to foreign countries, and when

such loans became due there would be an increased demand for exchange to pay these, resulting in higher rates.

Effect of Discount Rates.

The discount rates at London, Paris, Berlin, and other European centers very materially affect the buying and selling price for commercial bills drawn against commodities exported. These discount rates are the rate per cent at which commercial paper of the different classes may be discounted—that is, the allowance made for cashing or taking up the paper before maturity or before due and payable. These discount rates fluctuate according to the conditions prevailing, as does the rate of exchange. When discount rates abroad are high, the rates for commercial bills here will be lower, and when low abroad, the rate for commercial bills here will be higher.

Under normal conditions, the rates for foreign exchange fluctuate between what are termed gold-exporting or gold-importing points, which means the actual cost of the gold plus the cost of transporting it from one point to another.

For example: If you wished to remit, say, to London the equivalent of £50,000 (or approximately \$250,000), and you found that the cost of the gold coin or bullion and the expense of freight, insurance, commissions, etc., would be considerably less than the cost of a draft or check for the amount on London, then you would ship gold in preference. If the cost were equal or greater for shipping gold, then you would remit by check, as it would be more convenient and less risk. Therefore the rates naturally do not go much above or much below the gold points.

When the rate for demand sterling exchange gets down to, say, \$4.83 $\frac{3}{4}$ to \$4.84 per pound, it is cheaper to import gold. If such exchange reaches as high as \$4.84 $\frac{1}{4}$ to \$4.88 $\frac{1}{2}$ per pound, then gold can be exported equally cheaply.

But notwithstanding these various conditions which affect the market price for foreign exchange, it is the supply and demand that regulate the price, as in the case of wheat, corn, or any commodity.

Par of Exchange.

“Par of exchange” means equal of exchange. There is a “mint par of exchange,” and also what might be termed a “commercial par of exchange.”

The mint par of exchange between the United States and foreign countries is the actual value in our money of the pure metal contained in the coins representing the units of money of the various countries. The Director of the United States Mint is required at stated periods in each year to proclaim the values of these coins or units in our money for the purpose of computing the worth of importations of goods and also the amount of customs duties assessable thereon. The value of gold coins, as fixed by the Director of the Mint, rarely ever changes, since the weight and fineness of the gold units of countries are fixed by law—in the United States by act of Congress, in Great Britain by act of Parliament.

The mint par of exchange of the English pound or sovereign in our money is \$4.8665; of the French franc and the franc of the Latin Union countries, 19.3 cents; of the German mark, 23.8 cents; of the Scandinavian

krone, 26.8 cents; and of the Holland gulden or guilder, 40.2 cents; and for many years it has been the same. While these values as furnished are not exactly correct, they are sufficiently accurate to serve the purpose intended, and are accepted for all computations at the custom houses.

To find the Par of Exchange.—In order to determine the actual mint par of exchange between any two countries, it is necessary only to divide the weight of the pure gold in the gold unit of the one country by the weight of the pure gold in the coin of the other country. The mint par of exchange between the United States and countries having silver monetary units is arrived at in the same way, but as the price of silver fluctuates, the value of silver coins frequently changes.

As an illustration of how the pars of exchange are arrived at, we will take for example the mint par of exchange between the United States and Great Britain. Our gold dollar (which is our unit of money of account) weighs gross 25.8 troy grains and is $9/10$ fine, $1/10$ alloy being allowed to increase its durability, which, if deducted, leaves 23.22 troy grains of pure gold. The sovereign contains gross 123.274478 troy grains and is $11/12$ fine, which leaves the pure gold in the sovereign 113.001603 troy grains, which, if divided by 23.22, the pure gold in the United States dollar, gives \$4.866560, the mint par of exchange.

If you divide the value of the sovereign (\$4.8665) by 20 (there being 20 shillings to the pound), it will give you the actual value of the shilling in our money, or if you divide it by 240, the number of pence to the pound,

it will give you the value of the penny in our money (a fraction over 2 cents).

Commercial Par of Exchange.—Now, as to the commercial par of exchange, if you add to the mint par of exchange between two countries the cost of transferring the coin or bullion, which involves freight charges, insurance, interest, commissions, and sometimes discounts, you will arrive at what would be termed, under normal conditions, the “commercial par of exchange,” or the amount necessary to discharge a debt of a merchant in one country to a merchant in another country.

In further illustration of the commercial par of exchange, if the United States owed England exactly the same amount that England owed us, the debts between these two countries could be paid without the intervention of money, and the commercial price of exchange would be at par. If, however, we owed England a greater amount than it owed us, exchange here would be higher, and in England lower, and vice versa. In other words, exchange in the United States would be at a premium, and in England at a discount, the premium in one case being about equal to the discount in the other.

Quotations of Rates.

Quotations for foreign exchange, such as checks, drafts, commercial bills, etc., are rarely understood except by those familiar with the business. In quoting the rate of exchange for drafts, checks, etc., on countries other than France, Germany, and sometimes Italy, the rate quoted is per single unit, that is, so much in our money per pound sterling on England; krone on Norway, Sweden, and Denmark; ruble on Russia, etc.

Exchange on France and Germany, when quoted by dealers at smaller places, would be the same—so much per single franc or mark; but in the larger cities it is the custom, when quoting rates for francs, to quote the number of francs and centimes that will be allowed per \$1, as, for example, $5.15\frac{5}{8}$ —meaning that for each \$1 you would be allowed 5 francs $15\frac{5}{8}$ centimes.

On Germany the quotation would be for 4 marks instead of 1; for example, $95\frac{5}{16}$ —meaning that for each 4 marks you would have to pay $95\frac{5}{16}$ cents.

The allowance of $\frac{5}{8}$ of a centime per \$1, considering that one whole centime is worth only 1-5 of a cent in our money, and a fraction like 5-16 of a cent in our money on 4 marks, no doubt seems to most people like a very small item, but on a transaction of 100,000 francs (about \$19,400 in our money) $\frac{5}{8}$ of a centime per dollar would make a difference of over \$28, and 5-16 of a cent per 4 marks on 100,000 marks (about \$24,800) would be a difference of over \$78, or over \$15 on each 1-16 of a cent.

Peculiarity of French Quotations.

One peculiarity in the French quotations is that the rate is always advanced or lowered by $\frac{5}{8}$ of a centime; for illustration, the next lower rate to 5.15 would be $5.15\frac{5}{8}$, then $5.16\frac{1}{4}$, $5.16\frac{7}{8}$, $5.17\frac{1}{2}$, etc., there being just $\frac{5}{8}$ between each quotation. Bear in mind, the greater the number of francs and centimes allowed per dollar, the lower would be the rate, since, as the quotation is per \$1, the more francs you would receive for your money. One reason assigned for this method of quoting the French franc, which is the reverse of that in other kinds of exchange, is $\frac{5}{8}$ of a centime is equivalent to $\frac{1}{8}$ of 1

per cent. in the pound sterling, and as most of the French exchange was formerly covered or paid through English exchange, this method served a convenience in figuring. The other reason, which is given by the "Financier" of New York, is that as there are 5 francs to the dollar, $\frac{1}{8}$ of 1 per cent. on 1 franc would call for $\frac{5}{8}$ of 1 per cent. on 5 francs, the equivalent of \$1.

But these quotations on francs by $\frac{5}{8}$ of a centime, though they served every purpose a few years ago, are not now sufficiently close to meet the competition of the present day and are supplemented with fractional quotations, such as $5.15\text{-}\frac{5}{8}$ —1.32, or $5.15\text{-}\frac{5}{8}$ —1-16, or $5.15\text{-}\frac{5}{8}$ plus 1-32, etc. These plus or minus fractions do not apply directly to the rate, but mean 1-32, 1-16, 3-32, etc., of 1 per cent. plus or minus the equivalent amount in American money, which is added or deducted as the case may be.

In a publication entitled "Foreign Exchange," issued by myself, furnishing conversion tables for foreign-exchange transactions, I have adopted a method for quoting on French exchange that would do away with those confusing fractional quotations, by supplying conversion tables for francs, the equivalent of \$1 by eighths of a centime. For example: instead of jumping from $5.15\text{-}\frac{5}{8}$, which would be the next lower quotation, the tables in this book are for 5.15, $5.15\frac{1}{8}$, $5.15\frac{1}{4}$, $5.15\frac{3}{8}$, $5.15\text{-}\frac{1}{2}$, and then $5.15\frac{5}{8}$, which practically serve the same purpose, and avoid the complicated figuring of the fractions, plus or minus 1-32, 1-16, or 3-32, etc., of 1 per cent mentioned; and I look for its general adoption in the near future.

German and English Quotations.

Quotations for German exchange, where quoted for 4 marks instead of a single mark, are also supplemented by the plus or minus fractional quotations; as, for example, if 95 5-16 per 4 marks was thought a little too high, it will be quoted 95 5-16 minus 1-32 of 1 per cent., which on a transaction of 100,000 marks would make a difference of about \$7.50.

In large transactions the quotations on English exchange (which are generally confined to eighths of a cent per pound) are often supplemented with the quotation "plus 1.00," which means \$1 additional will be charged on each 1,000 pounds, making a difference of 10 points in the rate. That is, a quotation of 4.87 $\frac{1}{4}$ plus 1.00 would be \$4.8735, and it is not unusual in very large transactions to advance or lower the rate by five hundredths of a cent per pound, such as 4.87, 4.8705, 4.8710, 4.8715, etc., each five hundredths of a cent per pound making a difference of \$5 on each 10,000 pounds, or \$250 on a transaction of 500,000 pounds (nearly \$2,500,000 in our money), often made by large financial institutions in a single day.

Meaning of Newspaper Quotations.

As an illustration let us take a clipping from the Chicago Tribune, quoting the rates for "foreign exchange." Under the heading "Foreign Exchange Market" it starts in by saying: "Foreign exchange closed steady at the following rates." "Steady" means a demand and prices likely to remain as they are. "Firm" would mean good demand, with prices tending upward; "strong," a

large demand, with prices certain to go higher. "Dull" or "weak" would, of course, mean very little or no demand, with prices tending lower.

Under the head of "selling" rates it gives:

Cable transfers, London	5.88
Checks, London	4.87 $\frac{1}{2}$
Checks, Paris	5.16 $\frac{1}{4}$ plus 1-32
Checks, Berlin	0.95 7-16
Checks Holland	0.40 $\frac{1}{4}$

"Selling rates," in this case, mean the prices that were charged customers who wished to remit abroad.

The first item, "cable transfers," is where amount of money desired to be paid abroad is deposited here, and the bank or concern with which you are transacting the business cables its correspondent abroad to pay the amount to the person at the address you designate. Of course, it would be necessary for those making such transfers to have funds or credit abroad for such purpose. When it is desired to have money paid at interior places, the cablegram will be sent to the nearest city at which the bank or concern here has funds, and it will be forwarded by mail there, causing a delay of perhaps only a few hours. Ordinarily, within one or two hours from the time you deposit the money here it will be paid to the person abroad whom you designate.

The quotations for checks London, checks Paris, and checks Berlin are the rates at which they would have sold you a demand check or draft payable at those particular cities. If you wanted a check payable at some other point in Great Britain, France, or Germany, they undoubtedly would have charged you a higher rate, since their balances are kept only at principal trade centers,

and their arrangements for payment of their paper at interior or other points are that the bank correspondents there will honor their paper and reimburse themselves by drawing upon the trade centers for the amount plus their commission for cashing, hence adding to the cost of performing the service.

The next item is "checks Holland $40\frac{1}{4}$." This means they would charge for a check or draft on any point in Holland at the rate of $40\frac{1}{4}$ cents per guilder or guilder, the money of that country.

Following the above there appears in our newspaper clipping the heading "Buying Rates," which means the rates at which the banks purchased the various classes of commercial paper named. The quotations are as follows:

60 days London bankers	4.84 $\frac{1}{4}$
60 days London documentary	4.84 $\frac{1}{2}$
3 days Antwerp	5.18 $\frac{1}{8}$ less 1-32
3 days Hamburg	0.95 $\frac{1}{4}$ plus 1-32
60 days Holland	0.39 15-16

The first quotation, "60 days London Bankers 4.84 $\frac{1}{4}$," is for drafts drawn by bankers payable sixty days after sight (meaning after acceptance abroad) against their account in a bank upon which draft is drawn. The banker issuing such draft has 60 days (if necessary) in which to place funds abroad to meet payment of this draft; therefore a bank will often sell its sixty-day draft with the belief that it will be able to purchase and place the amount abroad to meet the same before draft is due, at a lower rate than at which it sold, and thus make a profit. There are other cases where a

bank will sell its sixty-day draft on the market to obtain the use of the money for that period.

The next item, "60 days London documentary 4.84 $\frac{1}{2}$ " is what is known as a foreign commercial bill of exchange, which I will explain more fully later. The documents referred to are the bills of lading and the insurance certificates, representing a shipment of goods abroad. The draft is drawn payable sixty days after sight, which is the time credit extended to purchaser by the seller.

The three-day quotations mentioned on Antwerp and Hamburg are for drafts payable three days after sight. The custom of drawing drafts three days after sight on points in European countries outside of Great Britain is because no days of grace are allowed on the continent as in Great Britain, and the three days are granted to insure payment being made, and thus avoid "protest fees," which often are very exorbitant.

The sixty-day Holland bills are issued and paid under practically the same conditions as the "sixty-day London bankers" just mentioned, although drawn against commodities exported. They are what is termed "clean bills" by reason of there being no documents attached.

We may also find in our paper the following items which pertain to foreign exchange transactions: Under the head of "Money Markets of the World" it reads: "Discounts at London, 2 $\frac{3}{4}$ per cent.; Paris, 2 7-16 per cent.; Berlin, 1 $\frac{5}{8}$ per cent." Foreign discount rates mean the rate per cent. charged or allowed on drafts discounted or paid before due. These particular rates mentioned apply to drafts drawn on bankers.

Here is also another newspaper quotation "Sterling exchange—posted rates 4.88, actual rates $4.87\frac{1}{4}$, documentary rates 4.84." *Posted, or nominal, rates* are those posted daily on bulletins of leading New York dealers in exchange for use of the general public, and apply more particularly to smaller sums. *Actual rates* are inside terms made to brokers or large buyers for large sums. *Documentary rates* are for commercial bills of exchange.

Before and After Clearings.

Here is still another newspaper quotation, which, while not applying directly to foreign exchange, materially affects its rates in the western market: "New York exchange—30 cents discount before clearings, 40 cents discount after clearings." The expressions "before" and "after clearings" mean before or after the meeting of the bank clearing-house, a meeting held each day about 11 a. m. by representatives of the different banks to exchange debits and credits with each other. "New York exchange" means checks payable by a bank in New York. Thirty cents discount in this case would mean that New York exchange, in sales between banks (not as a rule with the public), would be sold at a discount of 30 cents for each \$1,000. If New York exchange were quoted at a premium of 30 cents, they would charge 30 cents additional per \$1,000. The reason why the rates for New York exchange affect the rates for foreign exchange in the West is that the rates in the West and elsewhere in the United States are based on—or I might say controlled by—the rates in New York, because New York is the principal buying market. Therefore if New York exchange here is at a discount, on large transac-

tions banks would sell you a draft on London or other foreign city at the rate of 30 cents per \$1,000, less than you could buy it for in New York; or, if at a premium, the rate would be that much per \$1,000 higher than New York rates, providing of course you paid in cash or local funds.

Exchange for	Chicago, Ills.	100
<i>days after sight of this First</i> of Exchange (Second of same tenor and date unpaid) pay to the order of		
Value received, which place is account of	<i>To</i>	

Exchange for	Chicago, Ills.	100
<i>days after sight of this Second</i> of Exchange (First of same tenor and date unpaid) pay to the order of		
Value received, which place is account of	<i>To</i>	

Foreign Bill of Exchange.

CHAPTER XIX.

FOREIGN EXCHANGE.

BY H. K. BROOKS

Part 2.

The basis of a foreign bill of exchange is, as its name implies, a commercial transaction of international character, which consists in the purchase of goods or commodities in one country for export to another country.

The draft represents the money value of the goods which is due the exporter.

The bill of lading is the contract between the transportation company and the shipper for carrying of the goods, and also serves as the order for their delivery.

The insurance certificate is the certification of the marine insurance company of reimbursement in case goods are lost by fire or accident while en route on the ocean.

These three documents—the draft, bill of lading, and insurance certificate—constitute what is termed a *foreign commercial bill of exchange*. They are almost invariably issued in duplicate for fear one set may be lost in its transmission abroad by mail, one of each set being marked “original,” the other “duplicate;” or sometimes one of the drafts will read “first of exchange,” the other “second of exchange.”

Foreign commercial bills of exchange are also known as “documentary bills of exchange,” by reason of the bill

of lading and insurance certificate accompanying the draft. It is customary to send the originals of the three documents by first steamers, the duplicates or seconds by following steamer. If the original set is lost, the duplicate will serve the same purpose.

Commerce and Exchange.

Trade between countries may be said to be conducted in a manner somewhat similar to that employed here between cities or towns, except that the method of payment or reimbursement to the shipper necessarily differs by reason of greater distance, the difference in kind of money used, and commercial customs in the two countries. To obtain payment for goods shipped to a foreign country which perhaps would not arrive at their destination for several weeks and possibly months, according to distance, and whether by fast or slow steamer, to say nothing of the fact that to some countries steamers only leave our ports semi-monthly or monthly, it is the usual custom of the shipper, whom we term the exporter, to sell his commercial bill of exchange against the shipment in advance to the highest bidder; and he rarely experiences any difficulty in finding a ready purchaser.

Our exporters, in competing with foreign manufacturers, must take into consideration cost of transportation, insurance on goods, customs duties, difference in value of money, and the probable price at which they can discount or sell their commercial bills against the same. Time credit must also be extended to the buyer. If our exporters had to wait for payment until the maturity of their bills, it would mean the tying up of a large amount of capital and possibly prevent their competing successfully.

A Typical Transaction.

The process by which a foreign commercial bill of exchange drawn against commodities exported is created and handled, and reaches its termination, may best be illustrated by an actual transaction, and I give below exact terms of a commercial bill of exchange drawn against a shipment of flour made by a leading exporter—flour being one of our chief exportable commodities.

The shipment of flour in question, destined to Liverpool, England, was delivered to the Soo freight line at Minneapolis, operating over the Minneapolis, St. Paul & Sault Ste. Marie and Canadian Pacific Railroads, and a through bill of lading in duplicate was obtained. This *through bill of lading* is a form of contract, issued by special arrangements with connecting ocean steamship lines, by the terms of which it is agreed, under conditions printed thereon, to transport the shipment through to the destination at the foreign port (Liverpool). It states the number of packages, how they are marked, their contents, the particular grade or brand of flour, and the name and location of the party for whom the goods are intended. It is negotiable only by indorsement of the exporter.

Upon presentation of this evidence of shipment, a marine insurance company has issued a *certificate of insurance*, under the terms of which it agrees to reimburse the owner of the goods in case of the loss of the shipment by fire or accident while en route on the ocean. This shipment, as is the usual custom, is insured for about 10 per cent in excess of its billed value.

The exporter then attaches to these documents a *draft for the amount* for which the flour was sold, namely, £457 12s 10d. Had his shipment been destined to a point in Germany, the draft would have been drawn in marks; if to France, in francs, and so on; usually in the money of the country where it is going; but quite often it will be drawn in English money, although going to some other country, by reason of English exchange being preferred.

In this case the exporter agreed to allow the buyer sixty days' time in which to pay the draft, after its presentation. The draft reads "60 days after sight of this first of exchange (second unpaid), pay to the order of ourselves 457 pounds 12 shillings and 10 pence, against Soo line, through B. L. No. B. 1548, dated, 19 . . ., for 2,000 sacks of flour branded Dakota," and is signed "Northwest Consolidated Milling Co., by H. E. Kent, cashier," who are termed the *drawers*. In the left corner it reads: "To James Corwith & Co., Liverpool, Eng." They are the buyers, or, as we term them, the *drawees*.

Now, these three documents, drawn to the order of the exporters (Northwestern Consolidated Milling Co.), comprise a *commercial bill of exchange*.

Upon the same day that these documents were issued, and practically before the flour had started on its long journey, the exporters offered this bill of exchange for sale. It was sold to the Security Bank of Minneapolis (that being highest bidder) at the rate of \$4.84 per pound, who in turn resold it to the American Express Co. at \$4.84 $\frac{1}{8}$ per pound. The indorsements on the back of the draft read:

Northwestern Consolidated Milling Co., H. E. Kent, Treasurer.

Security Bank of Minnesota, Thos. F. Hurley, Cashier.

Pay to the order of the National Provincial Bank, Liverpool.
American Express Co., By Jas. F. Fargo, Treasurer.

The latter indorsement shows the papers to have been sent to Liverpool for collection. The bank at Liverpool notified Corwith & Co. to call and accept the draft, which they did, by writing the word "accepted" and the date over their signature.

About fifteen days afterward the flour arrived by slow steamer, and, being in immediate need of it, Corwith & Co., in order to obtain the bill of lading, had to pay the draft; the instructions stamped on same being: "Surrender documents upon payment only."

Now, as Corwith & Co. paid this draft forty-five days before it was due, the bank, as is customary, allowed them the prevailing rate of discount applicable to that class of bills, which was 2 per cent (or £1 3s. 5d.). The difference, £456 7s. 5d., less cost of revenue stamps, was placed to the credit of the American Express Co. by the bank which closed the transaction.

Had the instructions on draft read "Surrender documents upon acceptance of draft," the bill of lading would have been delivered when draft was accepted, thus enabling Corwith & Co. to obtain goods at once and pay draft sixty days afterward if they desired.

The method used in determining what this commercial bill was worth when buying it here was based upon the following:

1. What demand exchange upon Liverpool could be sold for.

2. The cost of revenue stamps to be affixed when draft was accepted abroad.

3. The interest for the number of days for which draft was drawn, plus three days' grace, at the rate per cent bill could be discounted.

For illustration:

\$4.8775 Demand rate on Liverpool.

0.00244 Cost of revenue stamp (1-20 of 1 per cent, of rate or 1 shilling per 100 pounds).

\$4.87506

0.01676 Interest 63 days 2 per cent (disc. rate).

\$4.85830 Parity or cost per pound at maturity or if discounted.

4.84125 Rate per pound at which purchased.

\$0.01705 Profit per pound.

Or \$7.78 on £457 12s. 10d.

Foundation of Foreign Exchange.

The buying of foreign commercial bills of exchange is the principal medium of bankers and foreign-exchange dealers in placing funds to their credit in banks abroad against which they issue checks, drafts, letters of credit, etc. It is the foundation of most of our foreign-exchange transactions. It is the principal source of profit in the business. It enables manufacturers to sell their goods abroad for cash in advance.

Foreign bills of exchange vary as to conditions of payments abroad. If conditions of sale between buyer and seller of the goods were that goods were to be paid for upon delivery, the instructions accompanying the bill would say "documents for payment" (expressed d.p.), meaning not to deliver the bill of lading (which would enable drawee to get goods) until draft had been paid.

If instructions said "documents for acceptance" (expressed d. a.), it would mean that bill of lading could be delivered when draft was accepted, thus enabling drawee to obtain goods at once and pay draft any time within sixty-three days (if a sixty-day bill).

Buying Commercial Bills.

The buying of commercial bills of exchange can be safely undertaken only by those thoroughly familiar with that business. It is practically equivalent to loaning money upon security you have not seen. If the drawee of the bill has unquestionable responsibility, that of course eliminates the principal risk of loss; but if great care is not exercised in examining bills purchased, a slight imperfection or error might cause a long delay in adjusting the error, thereby causing loss of interest. If through a misunderstanding or for other cause goods are not accepted, they have to be sold to the best advantage for the account of the owner of the bill, and the proceeds of the sale are applied toward payment of the draft. If there is a deficiency, it is collected of the drawer of the bill—the exporter.

The buyer of commercial bills should know the market value of the goods exported and the financial standing of the drawer or exporter; should see that the bill of lading is correctly dated, corresponds with the shipment made, is duly signed by the agent or proper official of the railway or freight line; that it corresponds with the insurance certificate in the various particulars; that, if more than two copies were issued, he has them all; that there are no printed or stamped conditions thereon that would be likely to render it valueless under possible emergencies.

If goods are perishable, see that they are routed by fast freight and fast steamers. If bill of lading only covers shipment to the seaport, as is sometimes the case when shipped from small inland places where through bills of lading are unobtainable, arrangements must be made through your own agent to have same exchanged for ocean bill of lading at seaport. Any error or incompleteness of the documents will cause a delay in payment or expenses for cablegrams to adjust them.

Hypothecation Certificates.

It is the custom of large buyers of foreign commercial bills of exchange to exact of exporters what is termed a "hypothecation certificate." This certificate, after describing the nature of the shipment and the documents in question, states in effect that the bill of lading is lodged as collateral security for the acceptance and payment of the draft; that in case the drawee declines to accept the draft, or it is not paid at maturity, the owner of the bill is authorized to place the property described in the hands of brokers for sale for account of whom it may concern, and apply the proceeds toward payment of the draft and expenses incurred; and that in case of a deficiency the seller agrees to pay amount on demand. Sometimes exporters give a general hypothecation certificate to apply to any and all bills of exchange purchased of them.

Certificates of Insurance, Etc.

Certificates of insurance on shipments exported are usually for a sum of from 10 to 20 per cent. in excess of the stated value of the goods. They should be carefully

examined to see that there is no clause which would render insurance void in event of the shipment not going forward at a specified period, or that it would expire before arriving time of the goods in case of delay or by reason of any of the possible emergencies likely to arise.

The buyer of foreign commercial bills of exchange must be familiar with the revenue laws and commercial customs of all the foreign countries, as well as the various rates of discount upon the several classes of paper as they change from day to day.

Various Rates of Discount.

You should always bear in mind that a different rate for discount applies to the different classes of bills. For instance, on documentary bills where documents are for payment, the discount or rebate rate is 1 per cent. below the bank of England official minimum discount rate. If drawn on firms (not bankers) and documents are for acceptance, the discount rate would be $\frac{1}{4}$ or 1 per cent. above the private discount rate for bankers' bills.

If drawn on bankers, whether documentary or otherwise (which are always for acceptance), the discount rate would be the private rate of discount, which fluctuates according to demand and supply of such bills; and in case of large transactions it is customary for buyers of such bills here to cable their correspondents abroad for a discount rate to apply on bills to arrive by next mail or for a stipulated period before buying, in order that they may know exactly at what rate the bills can be discounted upon their arrival. Without such previous arrangement the discount rate might change materially and result in loss upon the transaction.

The Bank of England Rate.

The Bank of England official minimum discount rate is fixed by the directors of the Bank of England at their meetings upon Thursday of each week, and their decision usually appears in the financial columns of our daily papers reading thus: "Bank of England minimum discount rate unchanged," or "the Bank of England increased (or reduced) its minimum discount rate to 3 per cent," etc.

The private discount rate is the rate at which private banks (meaning all those in Great Britain other than the Bank of England) will discount bills of exchange for account of the owners or last indorsers, and this discount is governed by the Bank of England discount rate, and also by the supply of bills in the market for discount, but, except under unusual conditions, the private discount rate will always be about $\frac{1}{4}$ of 1 per cent. below the Bank of England official minimum discount rate.

What are known as "rebate rates" apply only to time commercial bills of exchange drawn on firms where documents are for payment; that is, where bill of lading is delivered only upon payment of the draft. This rebate is an allowance made to the payee or drawee from the face amount of the draft, if paid before maturity, or before due, and such rebate is 1 per cent. below the Bank of England official minimum discount rate.

Theoretically the Bank of England controls the discount market in London. This control is sought to be maintained through the official rate of discount at the bank, which is advanced when its stock of gold bullion is being largely drawn upon for export to the United

States or European countries. If the conditions prevail to make it inadvisable to raise the bank rate, a higher price for gold will be charged; or if it finds difficulty in controlling the discount rate, it will create a demand for discounts by borrowing on its security, thereby increasing the demands for discounts.

Unlike the Bank of England, which undertakes to control the stock of gold by advancing the discount rates, the Bank of France protects its stock of gold by increasing the price of gold when withdrawal of a large amount is threatened. The official discount rate of the Bank of France, which controls the market rate, rarely changes except in case of financial or political crises.

Safe and Unsafe Bills.

There are certain classes of commercial bills which, unless special care is taken, are regarded as unsafe. In the case of cotton, on account of the different grades and the fact that there is so great a difference in the price of the different grades, and its being so easy to substitute one grade for another, the bills against shipments should be purchased only of well-known and responsible shippers or indorsers.

Grain shipments are all right, providing the grain inspector at the shipping point is of good reputation; otherwise he might inspect as No. 2 what was billed as No. 1.

Perishable goods are always more or less risky, on account of the danger of delay and of the goods spoiling. You should see that perishable goods are sent by fast freight lines and fast steamers.

Pianos, organs, musical instruments, and such goods have imaginary values, and could rarely be sold at the price at which billed.

"Banker's reimburse bills" are those where drafts are drawn against a shipment exported, upon a banker, the documents being for acceptance. When buying such bills you should keep a record showing names of indorsers and keep close watch of the drawer or shipper until the bill is paid. The shipper should be responsible, and, if buying a considerable amount of such bills on the same drawee, you should ascertain through your correspondent abroad the responsibility of the drawee, and be sure you do not buy more bills against a single drawee than his ordinary business requirements would indicate he needed.

Banks selling commercial bills of exchange (documentary) sometimes stamp them, for example, "In case of need with the Bank of Scotland, London," or some other bank. This is done to avoid charge of intermediate banks for indorsing or protesting drafts, which charge is usually very exorbitant. When so stamped, it is a notice to all holders of the draft they may call upon the bank named, if the draft is not promptly accepted or honored, for relief; therefore there is no necessity for protesting. The bank mentioned will, by previous arrangement, always honor such drafts and charge to the account of the bank indorsing such notation thereon.

Clean Bills of Exchange.

"Clean bills" of exchange are those having no bill of lading attached, although they may have attached insurance certificate and an invoice of shipment. If these

clean bills are drawn upon firms, they are subject to a discount rate of $\frac{1}{4}$ of 1 per cent. above the private discount rate of the day; but if drawn upon bankers, they will be discounted at the private discount rate.

Commercial bills of exchange drawn by exporters without documents are generally upon their own house or branch abroad, and are against funds which have accumulated to their credit from payments for shipments previously made. Exporters before selling their own bills of this kind usually wait until the rates for exchange here are high. Such bills are discountable.

Commercial bills of exchange drawn upon bankers are always for acceptance, unless otherwise specified, and the discount rate applying to such bills is the private discount rate of the day.

Documentary Bills.

Documentary commercial bills of exchange drawn upon firms or banks where documents are for payment cannot be discounted upon the market, as in the case of such bills where documents are for acceptance, for the reason that banks abroad to which bills are sent for collection will not undertake to discount commercial bills unless they are what is called "clean" bills—that is, those having no documents or those which permit the documents to be delivered when the draft is accepted by the drawee.

A documentary or commercial bill of exchange, accompanied by instructions from the exporter or drawer, to deliver documents (bill of lading, etc.) only upon payment of the draft by the importer or drawee, which are drawn upon a firm, are subject to a discount rate of 1 per cent. below the Bank of England official minimum

discount rate. If the instructions are to deliver documents upon acceptance of the draft, the same rate of discount by the holder (bank) at $\frac{1}{4}$ of 1 per cent. above the private discount rate of the day.

Cost of Revenue Stamps.

Drafts drawn in the United States payable in foreign countries are subject to the revenue laws of such foreign countries, and the cost of stamps so affixed abroad must be paid by the holders of the bills, who in turn generally charges to the bank or banker from whom they receive the same for collection. The amount of revenue stamps varies according to the country. The following shows the cost on other than demand drafts in the principal foreign countries.

Great Britain: 1s. per £100 or fraction thereof, or 1-20 of 1 per cent of rate.

Germany: 50 pfennigs per 1,000 marks or fraction thereof, or 1-20 of 1 per cent. of rate.

France: 50 centimes per 1,000 francs or fraction thereof, or 1-20 of 1 per cent. of rate.

Belgium: 50 centimes per 1,000 francs or fraction thereof, or 1-20 of 1 per cent. of rate.

Holland: 50 cents per 1,000 gulden or fraction thereof, or 1-20 of 1 per cent. of rate.

Norway, Sweden and Denmark: 50 ores per 1,000 kroner or fraction thereof, or 1-20 of 1 per cent. of rate.

Italy: $\frac{1}{8}$ per cent. of rate, or \$1.13 per \$1,000.

Russia: $\frac{1}{4}$ per cent. of rate, or \$1.25 per \$1,000.

Austria-Hungary: $\frac{1}{8}$ per cent. of rate, or \$1.13 per \$1,000.

Switzerland varies at different places—some places have none.

The cost of revenue stamps required to be affixed to commercial bills in Great Britain at the time of acceptance of draft is 1s. for each £100, which is equivalent to $\frac{1}{2}$ per mille, or $\frac{1}{2}$ per cent. per £1,000, or 1-20 of 1 per

cent. of the rate, which latter, expressed decimally, when the rate is \$4.83 per pound, would be 0.00244 (or 4.88 divided by 1-20 of 1 per cent.) Where the amount of bills is small, say £1,000 and under it is safe to deduct $\frac{1}{4}$ cent per pound to cover cost of revenue stamps.

On short bills—five days' sight or less—only one-penny stamps (2 cents) are required.

Miscellaneous Charges.

European banks are noted for charging for every item possible in connection with every transaction handled—such items as postage on letters sent to you during a certain period, cost of cablegrams, check-books, envelopes, stationery, and often a lump sum for items that may have been overlooked. For collecting commercial bills of exchange they will usually charge, in England, about 1-20 of 1 per cent., or 1 shilling per cent.; France, 1-16 per cent; in Germany, 1-20 per cent. in the larger places and from 1-16 to $\frac{1}{8}$ per cent. in the smaller places.

Interest at thirty, sixty, or ninety days, with three days' grace added (as allowed throughout Great Britain), can easily be arrived at by using printed tables furnished by some of the leading foreign-exchange bankers, which give the proper decimal of a pound to deduct for interest and revenue stamp at the various rates. These printed tables also give the same information for figuring German and French bills of exchange.

Complicated Transactions.

Exchange transactions become more complicated when one country or place, as is often the case, discharges its debts through another country by means of bills of ex-

change drawn upon a third country or place; as, for instance, a merchant in Chicago importing goods from China would pay the exporter in China with a check upon London, for the reason that such check would be more desirable to the shipper in China, since the demand for exchange in China is greater upon London than upon the United States.

When in any market the demand for exchange on a certain country or place is greater than the supply, the deficiency is usually supplemented by bills on other countries having a more favorable exchange with the latter.

In the East Indies those who ship to America usually draw upon London instead of America. In New Orleans, exporters of cotton, etc., to Russia, draw upon London instead of St. Petersburg. This is because England does more business with those countries than America; besides, London is regarded as the greatest money center, and exchange upon that city is usually more favorable and can be used to better advantage.

German Requirements.

Importers in Germany will not accept drafts drawn against importations until the duplicate documents (duplicate draft, bill of lading, etc.,) are presented, and, in order to have the original draft accepted immediately upon its arrival, banks in this country when forwarding such bills for acceptance and collection will attach to the original draft a memorandum agreement to the effect that the duplicate bill of lading is in their possession, and their correspondents (banks) are requested to guarantee the acceptors (importers) that the duplicate documents will be delivered to them as soon as received, which guar-

antee also gives the number and amount of draft, the name of drawer, and the signature of a proper official of the bank or financial institution forwarding the same.

Convenience of Sterling Exchange.

The volume of transactions in French, German, and other continental exchange is quite small compared with that of sterling exchange. The reason for this is that most banks have accounts or balances only at London, and where balances are kept in other European cities they are usually small as compared with their London account. Therefore, in making remittances to Paris, Berlin, or other cities on the continent, it is most generally effected by transferring the funds to those cities from London, which can generally be handled very satisfactorily, by reason of most large European banks having branches in London. It is customary, however, for banks, before transferring funds from their London accounts, to carefully figure out the difference in cost between a remittance direct from here to the city where it is desired to place the funds and the expense of transferring it from London. This can easily be determined by ascertaining the rate of exchange between London and the point referred to.

Precautions Against Wrong Payment.

A "crossed sterling check" is one payable either to bearer or order, having the name of a banker, or two parallel lines and the abbreviation "& Co.," written or printed across the face, thus: "..... & Co." The effect is to direct the bank upon which it is drawn to pay the check only when coming to it through some

other bank. It is intended as an additional safeguard against wrong payment.

In most foreign countries it is the custom of bankers and others in the cashing of checks, whether drawn payable to order or bearer, to pay to the person presenting the same, and under the laws existing in these countries the paying bank or banker would not be held liable for wrong payment. As a reason for this seemingly risky method, it is claimed that on account of the very severe penalty imposed for forgery under their laws, the requiring of strict personal identification, as exacted by banks in the United States, is found unnecessary.

As an additional precaution against wrong payment, the laws of Great Britain require that where a check is crossed, as explained above, while not requiring personal identification, it must be cashed through some bank other than the one upon which it is drawn.

Notwithstanding the requirements under the laws, we presume a reasonable amount of care is exercised by banks to prevent losses by incorrect payment, and we are informed that in some countries a stranger presenting a check drawn to his order is required to make affidavit that he is the person named, for which affidavit the paying bank exacts a small fee.

CHAPTER XX.

INVESTMENTS.

BY D. R. FORGAN.*

There is a sense in which all business enterprises are investments. To build a ship or a railroad, to start a store or factory, to pay wages or place an advertisement—to do anything, in short, which involves an outlay of money for the purpose of increasing it—is an investment of capital. That is the sense in which political economists use the word, but in common use it has a more restricted meaning, viz.: the outlay of money in the purchase of property or securities which are expected to yield a sure and regular income without further effort on the part of the investor. This discussion will be limited to what may be included in that definition.

At the outset it may be well to have a clear view as to what funds are available for investment; or to answer the question so often asked as to where all the money comes from to pay for the enormous issues of securities which are constantly being brought out. A recent writer on this subject begins with the statement that the bank deposits of the United States increased in the seven years from 1893-1900 by \$4,000,000,000, and that "the effort to place this enormous amount of new capital has disorganized the entire field of investment." This is not correct. If the author had looked deeper, he would have

* From a lecture delivered to the students of the University of Chicago. Mr. Forgan is president of the National City Bank of Chicago.

seen that the increase in loans had kept pace with the increase of deposits, and that the banks had no greater percentage of reserves in 1900 than in 1893. In fact about the time this pamphlet appeared the banks in New York were under their legal reserves, and money was bringing good rates all over the country because it was scarce. Only such portion of the increase of deposits as represented the savings of the masses, or the surplus earnings of commercial enterprises, was available for investment. The remainder, which constituted by far the larger part of the deposits, represented only expansion of credit, and was not available for permanent investment.

Bank Deposits are Largely Credits.

It is a common error to consider bank deposits as "money in the bank," whereas they are largely composed of credits on a ledger. When a banker lends a customer \$100,000 he takes the customer's note and credits the customer's account with the proceeds. The transaction increases both the deposits and loans by \$100,000, but adds nothing to the "money in the bank." Even when the customer draws his checks upon the credit, it does not necessarily follow that the money in the bank is reduced, for his checks either go to the credit of another customer of the bank or they find their way into another bank and are offset by similar transactions in that bank.

This credit of \$100,000 created by the banker discounting the note of his customer performs all that actual money can perform, and practically adds that amount to the resources of the business community while it is extant. If the credit has been wisely granted, the note will be paid when due by the customer accumulating

enough credit balance in his bank account and then giving his check for his note. The transaction will reduce the bank's assets and deposits by \$100,000; but it will not increase nor diminish the "money in the bank."

Little Actual Cash Demanded.

In only a small portion of the transactions thus accomplished by credit will actual cash be demanded, and against this the banker must keep a certain percentage of his deposits in cash reserves. If the credit be granted to a worthless customer who cannot retire it when due, then the bank loses the amount, because its resources are reduced by \$100,000 while its liabilities remain the same. Right there in the difference between redeemable and irredeemable credit lies all the difference between good banking and bad banking, good currency and bad currency, good investment securities and bad investment securities.

Thus the increase of bank deposits was due more to the extension of credit than to an increase of actual money in the banks, or of funds looking for investment. In like manner, when deposits decrease it is a contraction of credit which takes place rather than a withdrawal of money.

In October, 1893, for example, there was more money in the national banks by \$28,000,000 than there was in 1892, yet the deposits were \$500,000,000 less on account of the contraction of credit due to the panic—the loans and other credit assets being correspondingly reduced.

The Potency of Credit.

In any financial discussion we shall soon go astray if we lose sight of the place and potency of credit. It is estimated that 90 per cent. of all business transactions are done on credit, and the currency used in the majority of cases composing the other 10 per cent is only credit in another form. In credit modern finance lives, moves, and has its being. It is not merely the means by which you buy and buy and pay by-and-by.

It is difficult to define, but we may say credit is the medium through which the representatives of property or value may be exchanged. The bank customer's note is in one sense only a slip of paper, but it represents all the property owned by the makers. In the same way bonds represent the property they are based upon; certificates of stock represent the capital of the company which issues them, and bank deposits stand for actual cash. Credit rests on confidence, which is simply a reflection of the existing conditions. When confidence prevails, credit expands easily—that is, the representatives of property and cash are readily interchanged. When confidence is shaken, credit contracts in proportion to the gravity of the cause, and interchange becomes correspondingly difficult. If confidence be destroyed, there is a panic, when it is almost impossible for the bank customer to negotiate his note, the railroad to sell its bonds, or the industrial company to float its stock. And all this happens while the money in circulation is little, if any, reduced.

Recent Expansion of Credit.

The past few years have witnessed a remarkable expansion of credit in this country. The bank deposits in-

creased about \$3,500,000,000, and new stocks and bonds issued during the period probably reached a total of \$10,000,000,000, while the total money in the country, paper and metallic, increased only about \$500,000,000. In other words, for every dollar in money added to the general stock, bank deposits increased \$7 and securities \$20. It is not necessary, therefore, that money be available to absorb a new issue of securities. If there is room for them in this sea of credit, they may be launched and floated.

When a new issue of investment securities is made, it is generally set afloat as collateral to an expansion of credit by the banks which extend to the broker or bond dealer credit with which to carry the securities until a market is found for them among investors. The rapidity with which investors will absorb them, and the price paid for them, depend upon their desirability and the condition of the money market—or, more correctly, of the credit market.

Effect of Public Confidence.

If confidence abounds, people readily invest in the representatives of property—stocks and bonds—and this creates a strong demand and a high price. On the other hand, if confidence be shaken, people prefer cash or its representative—bank balances—of certain value to securities of uncertain value, and they are slow to convert the former into the latter; and thus the demand is less than the supply, and the price obtained is consequently lessened.

When conditions are panicky, new issues of securities cannot be sold at all, and the holders of old issues become

so anxious to convert them into bank balances of stable value that prices fall far below intrinsic value, and then it is "bargain day" in the credit world. Many rich men hold their reserves for such occasions, which constantly recur, and they grow richer by so doing.

Funds Available for Investment.

The funds available for investment, which gradually absorb securities, come chiefly from the following sources, the first two of which have already been suggested:

1. Savings banks deposits—representing, not an expansion of commercial credit, but the savings of the common people.

2. That portion of the deposits of commercial banks which represents the accumulation of the profits of business and which may be withdrawn from business.

3. The funds of life and fire-insurance companies.

4. The funds of educational, charitable, and benevolent institutions.

5. The funds of estates in cases where the executors decide to exchange the assets at risk of general business for permanent investments, which call for no business management on the part of the owner.

6. The funds of retired business men who follow the same course for similar reasons.

7. The investment accounts of commercial banks maintained for the purpose of having some assets which can be converted into cash immediately in case of need.

8. That portion of the increment derived from former investments which the holders do not spend.

Increase of Investment Securities.

In such good times as we had for several years prior to 1901 the combined demand from all these sources was enormous; hence both the rise in the price of securities and the rush to create and float new issues which we witnessed during that period.

I have not been able to find statistics which present a complete account of the increase in the supply of investment securities in the United States during the period I have named. Some idea, however, may be obtained from the amount of bonds and stocks listed on the New York Stock Exchange, although these are but a small portion of the whole. For the five years ending 1901 there were listed \$949,516,639 bonds and \$1,443,850,208 stocks, exclusive of those which merely replaced old securities. In addition to these, every village, town, city, county, and state in the country has its own local securities. New issues are also constantly being created by new inventions, such as the telephone, the bicycle, the automobile, etc., so that my former estimate of a total of \$10,000,000,000 of new securities issued during these five years is probably not far astray.

Yet no question is more frequently asked than this: Where can I find a safe investment which will yield a fair rate of interest? And perhaps no question is more difficult to answer.

What Constitutes Desirability.

A man of little experience and superficial knowledge may answer readily enough, but the answer will come slowly from a man of conservative judgment. The desirability of any investment consists of three attributes:

(1) Safety, (2) Profit, (3) Permanency. All three, however, are relative terms. In investments there is no such thing as absolute safety, assured profit, or unchangeable conditions. United States bonds are today the highest-class investments in the world; yet men are still living who saw them go to a discount of 78 cents on the dollar. Within the last decade their profitability has been reduced by half, and unless we have another war the indications are that they will all be paid off within our own day. All we can do, therefore, is to consider the relative *safety*, *profitableness*, and *permanency* of the different classes of investment. There are investments which are more safe than profitable; others which are profitable, but not safe; and many which are neither safe nor profitable, but are certainly permanent.

We shall now consider the different kinds of investments offered in the United States, grouped as far as possible under four divisions:

I.—Public Securities.

Government Bonds.—At the head of this class stand Government bonds, of which there were at one time outstanding over \$2,500,000,000, but of which there are now only about \$1,000,000,000. These are held chiefly by national banks as security for their circulation, or for government deposits, and by trustees for funds in cases where safety is a more important consideration than profit. They are as safe as anything on earth and always marketable, but they scarcely call for our consideration, because they no longer offer any attraction to ordinary investors.

One of the striking marks of our national prosperity is the fact that American investors have recently been offered and have readily accepted participation in loans to foreign countries. Russian government bonds issued in connection with their great railway were taken at a price yielding $4\frac{1}{8}$ to the investor; the German loan of 1901, $3\frac{3}{8}$; the English short-time loan of 1900, 3.4; and the English irredeemable consols issued in 1902, about 2.6 per cent. Our own governments now yield less than 2 per cent. to the purchaser.

State Bonds.—Next in order come State bonds. Their history is not one of the things we are proud of. A total of over \$300,000,000 (principal and interest) of them is now delinquent by reason of repudiation on the part of their makers. A large part of this delinquency is made up of what is known as "carpet-bag" bonds issued by Southern states during the period of reconstruction and later repudiated on the ground that the government creating them did not properly represent the people. But that is not true at all. Virginia, for example, has old bonds outstanding which were created before the war and which you can buy for a few cents on the dollar. This is possible because the Eleventh amendment to the Constitution took away the right of private parties to sue states for payment of their debts.

It is probable that the days of repudiation are past, but history sometimes repeats itself, and it is well for the purchaser of state obligations to remember that their payment depends entirely upon public morality. If he confines himself, however, to the bonds of states whose good financial reputation is necessary to the business in-

terests of their citizens, the risk of loss which is inherent in all investments will be reduced to a minimum.

Municipal Bonds.—What has just been said regarding state obligations applies with equal force to the obligations of municipalities. There has been much repudiation also on their part, but most of it has been of bonds for which the people of the municipalities never received any consideration, the bonds having been issued during the speculative period succeeding the war in support of railroad schemes.

Unlike states, municipalities can be forced to pay through the courts, and so numerous have such cases been that almost every point concerning the legality of municipal obligations has been finally decided by the courts. The opinion of a competent lawyer as to their validity is now enough to satisfy investors, and such an opinion is always offered by bond dealers when offering the bonds. Beyond that it is only necessary to ascertain the population, and the general prosperity of the municipality, and the relation these bear to its total indebtedness, in order to decide upon the desirability of its obligations as an investment.

In many states the legal limit of such indebtedness is only 5 per cent. of the assessed value of the property within the municipality, and this is perhaps only 1 per cent. of the real value. With this safeguard, with our population increasing at the rate of 4,000 per day, and with the prevailing prosperity of our country, municipal obligations are now very popular investments. They yield, according to their grade, from $\frac{3}{5}$ to 5 per cent. to the investor, and as a class they are one of the best investments in the market.

II.—Real-Estate Securities.

The purchase of real estate itself may be considered as an investment if it is already improved and yields an income, or if the purchaser improves it immediately after its purchase. To buy unimproved real estate simply with the hope that it will increase in value in the future, is a *speculation*, not an *investment*.

Among men who have been successful in a small way the purchase of unimproved real estate is at times quite popular. The idea seems to be inherited that to own a piece of property is a mark of respectability and substance. The thought that it cannot run away or disappear seems to make it safe, and there is always the hope that it will increase in value. Nothing, however, could be more delusive. In ninety-nine cases out of a hundred it would pay better to put the money in a savings bank at 3 per cent. interest.

Even improved property is usually unsatisfactory as an investment. When taxes, depreciation by use and by change of style, repairs, insurance, periods of vacancy, and failure to collect rents are taken into account, the owners of real estate are generally disappointed in the net result. There are many notable exceptions, of course, but to own much real estate and get little out of it is so common that the term "real-estate poor" has come to be quite well understood among business men. The safest way to invest money in real estate is to buy it and lease it to others to build upon. In good localities the ground rent is assured by this means, and this makes one of the safest investments known. There is not enough of such business, however, to make it generally available.

Mortgages.—Another way to invest money in real estate is to advance it on mortgages, with a margin which should not be less than 50 per cent. Even then you are not sure that you will not have to foreclose your mortgage and take the property. A fall of 50 per cent. in the estimated value of real estate during the currency of a mortgage even in growing and prosperous communities is by no means uncommon. The value of real estate is never more than an estimate—an opinion—in which it is always difficult to find two authorities who agree. There is nothing wilder or more extravagant than the ideas of otherwise sensible men on the value of real estate during a period of inflation.

I remember a case in Minneapolis which will serve as an illustration. A man after successful litigation became the owner of a tract of land near that prosperous city, valued in popular opinion at a million dollars. He became involved in debt to the extent of \$250,000 and mortgaged all his real estate for the benefit of his creditors. The mortgage was foreclosed for the various creditors by the leading lawyer of the city—one of the ablest all-round business men I have ever known—who thus became thoroughly familiar with the property. The bank with which I was connected was one of the creditors, and I remember his telling me that the claim was quite good because the debtor would be certain to redeem the property from the foreclosure. It was not redeemed, however, and it fell to my lot to arrange a division of the property among the creditors. For that purpose I had another valuation made of the various lots, which amounted in all to about \$70,000. On that basis the million-dollar property was divided, the best cash offer we could get

being about two-thirds of that amount. In other words, the value of a tract of land contiguous to a thriving city of (then) 160,000 inhabitants shrank in popular estimation in a few years from \$1,000,000 to less than \$50,000.

Anyone wishing to invest his money in a real-estate mortgage should make sure that he is getting a *first mortgage*. There is nothing on the face of a mortgage or trust deed in Illinois and some other states to show whether a prior lien exists, and the palming off of a second or third mortgage as a first is not an unknown trick. He should also be satisfied that the title is clear in the name of the mortgagor. This is usually evidenced by a title guarantee policy, which is sufficient in most cases, though by no means infallible.

Then he should insist on seeing the property with his own eyes. No matter how reliable the mortgage dealer may be, a purchaser may, by visiting the property, discover something which may save him from an unsafe, or at least a slow and unsatisfactory, investment. It is not impossible that he may discover that the building shown to him by the mortgage broker as on the property is as yet far from completed, and that only part of the money represented by the mortgage has been paid to the mortgagor, the balance being represented by a credit on the books of the broker which is to be exhausted as the building goes on. In this case the investor must trust to the broker to see that the building is completed free of mechanic's liens and fit for occupancy.

Whether it is safe to trust the broker depends upon his financial and moral standing—which opens up a new field of investigation for the investor. He should also inquire into the financial standing of the mortgagor.

If that be unsatisfactory, the payment of interest is likely to be irregular, and foreclosure may become necessary on account of the mortgagor's difficulties, although the property itself may be quite good for the amount involved. Foreclosure is a slow, tedious, and expensive way of getting your money back, even if it does get it back.

Building and Loan Associations.—One of the worst forms of investment in real estate, in my opinion, is building and loan associations. They are gotten up in most attractive forms to catch the monthly savings of thrifty people with moderate incomes. I know there are some of these in the older parts of the country that are apparently successful, but my experience of them in the West leads me to consider them as, on the whole, almost the easiest concerns to get your money into and the hardest to get it out of that I know. Their plans seem so simple that anyone can understand them; nevertheless, one of my friends in Chicago, who is a thorough accountant, lost the savings of years in a building and loan association of which he himself was the annual auditor.

Farm Mortgages.—On the other hand, farm mortgages are one of the best real-estate investments. Swindlers have not been unknown along this line, but I believe the results to investors have been as satisfactory as in any line of investments. As in all others, prudence and common-sense must be exercised; but there are many corporations and firms of high standing engaged in the farm-mortgage business, and by dealing only with such, and avoiding certain states where the laws seem to have been made for the debtors, a safe and fairly remunerative

investment in farm mortgages is easily obtained. On the whole, investors should remember that to invest safely and satisfactorily in real-estate securities requires more knowledge of business, more experience, and better judgment than to invest in almost anything else.

III.—Corporation Bonds.

Railroad Bonds.—Under this head come, first, railroad bonds, which have absorbed more capital than any other investment in this country. In the year 1899, there were 187,781 miles of railroad in operation, the bonds on which amounted to \$5,699,858,000, or \$30,000 per mile. The interest paid on the bonds was \$245,250,000 or 4.12 per cent. This great class of investment securities is composed of various kinds. We have not only first, second, and third mortgage bonds, but consolidated mortgage bonds, income bonds, convertible bonds, terminal bonds, collateral trust bonds, equipment bonds, etc.

Among such a mass and variety as I have mentioned there are many of inferior quality, and some of even worthless character. The chief guide for the investor is in the earning capacity of the road, and reliable information on that point is easy to obtain. If the road's net earnings are at least twice its bonded debt charges, and if the road is well kept up so that such earnings are likely to continue, the bond may be considered satisfactory in that respect.

There is no difficulty in procuring good railroad bonds as an investment, if the investor confines himself to the issues of well-established roads, and is content with a return of 4 per cent. or a little less. It is when the bonds of new railway projects are offered that caution is necessary.

It is a well-recognized principle in railroad building that the road should be made not only to pay for its cost, but to yield a profit to the projectors besides. In other words, there is usually some "water" in the first issue of bonds—to say nothing of the stock. The squeezing out of the water in times past has frequently been an expensive operation for the bond holders. The appointment of a receiver, the discrediting of the securities, the purchase of them by "insiders" at a heavy discount, the "reorganization" of the road, or the sale of it to a large system, and the final happy outcome for said "insiders," is a process with which the student of railroad history is familiar.

Nor have cases of actual fraud in this line of operation been wanting. Sometimes they break ground for a railroad with great ceremony. Then they proceed to break the shareholders without any ceremony.

The Arkansas Central Railway Co. built only forty-eight miles of its projected road, but its promoters succeeded in floating \$5,000,000 in bonds of one kind or another on it. The road was so poorly built (what there was of it) that it was almost worthless. When it was sold by the receiver at public auction, it brought the sum of \$40,000, and even that was paid to the receiver in his own receiver's certificates, which had been bought at a discount. Such cases sufficiently illustrate the kind of dangers to be avoided in this class of securities. Our railroads at present, however, are in better condition than ever before. As a rule, they are properties of enormous value and productive power, and no better securities, as a whole, can be had than properly selected railroad bonds.

Public Utility Bonds.—Another large and rapidly growing class of bonds is composed of the issues of corporations operating public utilities, such as street railways, telephones, gas and electric-light plants, etc. Those offered in the market, however, are frequently new and based on properties in course of construction. They are disposed of on “estimated” earnings and well-written prospectuses. In such cases investors should never forget that, as a rule, all the risk of the enterprise is put upon the bond buyers. If it turns out a success, their investment will be good and they will get their 5 per cent. per annum. All the rest of the “estimated” profits that illumine the pages of the prospectus—be they ever so large—will go to the promoters of the scheme, who, as a rule, have put in no money of their own.

If it turns out a failure, the bondholders will be the only losers. This division of profit and risk does not seem quite equitable, but it is astonishing how ready many people are to accept it. The moral is plain: Never invest your money in the bonds of any such enterprise until it is completed and can show actual net earnings of not less than twice the amount required to pay the interest on its bonds.

Many of these enterprises are legitimate and profitable, and offer good security for their bonds. But it is time enough to buy the securities after their safety has been demonstrated by actual experience. This is a good rule, indeed, in regard to any investment.

Waterworks Bonds.—There is another class of bonds somewhat similar to those last mentioned—waterworks bonds. The provision of law, before alluded to, limiting

the borrowing power of municipalities to 5 per cent. of their assessed property value, prevents many towns from owning their own waterworks. The plan usually adopted is to form a corporation to which an exclusive franchise is granted to build waterworks. A contract is then entered into between the municipality and the water company, by which the latter undertakes to supply the former with a certain number of hydrants for fire protection, etc., for a certain sum per annum. This annual payment is then used to form a sinking fund for the retirement of the bonds issued to cover the cost of the waterworks. The company has also the right to sell water to the inhabitants, and the enterprise is frequently a profitable one, forming a safe basis for the issue of bonds. As usual, however, there are numerous dangers to be avoided, and possible losses to be feared.

One of these is that the water supply may not prove sufficient. Another is that the construction of the works may be cheap and not last as long as the life of the bonds. Still another danger is that the municipality cannot be bound by its contract longer than the life of the council which made it. A succeeding council may reduce the price paid for the hydrants. The greatest danger of all is that the company may get into a fight with the city; that the citizens may claim that the water is impure, and that as a result the waterworks may be abandoned and another water supply adopted. When I lived in Duluth, I witnessed such a fight brought about by an epidemic of typhoid fever. When the fight began, the water company's bonds were considered a first-class investment, and its stock was very valuable. When it

ended, the bondholders got seventy cents on the dollar and the stockholders nothing.

I might go on discussing miscellaneous bonds, but it is not necessary. Enough has been said to indicate the dangers to be guarded against, and to show that careful investigation before buying is a necessity; for while there are good, safe investments offered in all classes of bonds, it is easy to lose money.

IV.—Stocks.

The great difference between bonds and stocks is that, while the former are a lien on property of one kind or another, the latter frequently represent nothing more tangible than earning capacity, good-will, and the hope of the future. These are sometimes assets of great, but always uncertain, value. As a rule, it is the hope of a rise in value which leads investors to purchase stocks, and this brings a speculative element into the transaction. Of course, stocks are not all equally speculative. Bank stocks, for example, with their sworn, published statements, and the safeguard of government inspection, are not to be classed with mining stocks, about which nothing published is ever true, and of which no inspection is ever disinterested.

Another vital difference between bonds and stocks is that the former is a promise to pay both principal and interest, which can be enforced by law, whereas stock promises nothing. In other words, the holder of a bond becomes a creditor of the makers of the bond, whereas the holder of stock becomes a part of the company issuing it, and to that extent a debtor for all the liabilities of the company. In some cases (notably in bank stocks)

the holder of the stock is liable for as much again as the face amount of the stock.

Railway Stocks.—Among stocks railways form the largest and most popular class. The total amount of them is slightly greater than that of railroad bonds, viz., \$5,742,000,000 in 1899, while the dividends paid amounted to \$109,000,000, or 1.90 per cent. In such a vast total there is, of course, great variety, grading all the way from first-class to worthless. Most of them are listed on the New York Stock Exchange—a fact which has both advantages and disadvantages from an investment standpoint. The chief advantage is that they can be readily sold, but this is outweighed by the fact that they can be as readily manipulated for stock-jobbing purposes. As a class, they cannot be recommended to investors who desire something that they can “go to sleep on.” They require constant and intelligent watching, and only those who are capable of giving that to them should put their money into them.

“Trust” Stocks.—Another large class of stocks which has come into special prominence in the last few years is that known as industrials, which are chiefly the preferred and common stocks of the large corporations commonly called “trusts.” The extravagant way in which most of these combinations have been capitalized has filled many conservative minds with vague forebodings of coming disaster—moral, financial, and national—as the final outcome of the movement. But we should not confound the manner of doing a thing with the thing itself. We may admit that the promoter’s profit has been the chief motive in most of the combinations, that capitalization has been

extravagant, that speculation has been overstimulated, and that great danger exists in the fact that the caution which should control the investor has already given place to the craze for large and quick returns. But the movement itself will outlive these accompaniments, if it is economically sound, and if it leads to the greater and easier production of wealth.

In my opinion the so-called trusts are here to stay. The college presidents may rage and the politicians imagine a vain thing, but no law can be formed which will make it a crime for any number of people to combine their capital and ability in any legitimate business. Laws have been and should be enacted for the regulation of the combinations, for greater safeguards to the investing public, and for the protection of competing smaller concerns against monopoly.

Compulsory publicity of the condition of the corporations will go a long way in the right direction; but all talk of stopping the movement is vain. It is clearly an economical evolution from the evils of excessive competition, and much can be said in its favor. Its tendency is toward economy of production by the saving of all wasteful and unnecessary expense; and this is in harmony with the spirit of the age, which is ever improving on old methods and machinery. Its tendency is always toward a larger ownership of the property represented by the corporation and a wider distribution of the profits. There are now thousands of owners where there were but hundreds.

Competition is now between nations as well as individuals. Consolidations have had their share in placing this

country at least a neck ahead of our greatest competitors in the international race. How they will affect, or be affected by, hard times remains to be seen.* It is probable, however, that a few great vessels will weather a storm better than many small craft.

When great changes are going on it is natural to have some apprehension as to final results and easy to prophesy evil. When Rowland Hill's pennypost scheme had gained such support as to have its adoption proposed in Parliament, Sir Robert Peel, the greatest financial minister of his day, was its strongest opponent, and prophesied nothing but loss and failure as results. All the great movements in history were fiercely opposed by some of the ablest men of the time who were specialists on the particular matter in question. Looking back now, their opposition seems absurd. And so when our theoretical economists predict disaster from this movement, I say we must wait and see. None of the calamities has happened yet.

A great railroad resembles a modern trust in many respects. It is generally controlled by one man, but owned by thousands. It pays its stockholders better, serves the public better, advances national development better, and makes transportation vastly cheaper than a hundred small roads could do. In fact, the industries now being combined into large corporations are only following the example of the railroads. Of course, there is always the danger that things will be overdone and tendencies carried too far. But against this there is an intelligent public sentiment which will have to be reckoned with. I

* The results of the financial depression of 1907-08 in the United States proved the wisdom of Mr. Forgan's forecast.

believe the so-called trusts will live; but they will live only by proving that their existence is a benefit to the people and not a curse. This, I think, they will be able and wise enough to do.

I submit, therefore, that the field for investment known as "industrials" should not be passed by with a timid epigram, but is fairly entitled to consideration. Here, even more than elsewhere, investigation of the facts, guided by common-sense, is a necessity. The common stocks composed entirely of water and given away as a bonus to help sell the preferred cannot be classed as investments and many of these preferred stocks represent such extravagant capitalization that they also should be avoided. But for investors capable of intelligent investigation before, and supervision after, purchasing their investments some of the preferred industrials offer a legitimate and profitable opportunity.

I have in mind a large company whose products are used in every household of the land. It is provided with sufficient working capital so that it is never a borrower, and it has no bonds, except a small amount existing on some of the plants before they were acquired, which cannot be paid until they mature. It has earned dividends on its preferred and common stock from the beginning, and is piling up a good reserve fund besides. It has a staple business and is excellently managed. I fail to see, therefore, why its preferred stock, or the preferred stock of any other "industrial" in like circumstances, is not a safe and legitimate investment for a business man capable of keeping an intelligent supervision of his affairs.

Miscellaneous Stocks.—In addition to these great classes there are miscellaneous stocks too numerous to be here discussed. With regard to them as to all other securities, few general rules for insuring safety can be stated. My object in this discussion has been simply to hint at the dangers to be avoided, and to suggest the lines of investigation to be followed in buying the common securities which our market offers.

A Safe General Rule.

It may be said, however, that the safest general rule is to be content with a moderate rate of interest. From $3\frac{1}{2}$ to 5 per cent. is all that can now be looked for in securities which will require no watching on the part of the holder. One per cent. more return on an investment usually means at least 10 per cent. more risk of losing the principal. The days of large returns on securities offered to the general public are over, and all flaming advertisements or well-written circulars which promise high rates of interest should be passed by as little better than frauds.

An investor should never allow himself to be hurried into buying anything on the ground that if he does not buy at once the opportunity will be gone. He should take time to see the property or to read the document. This may save him much time, worry, and loss. It is wise not to put too many eggs into one basket, and not to buy when everyone else seems to be buying the same thing. Above all, he should *never expect something for nothing*. Anything that can be got for nothing in the business world is pretty sure to be worth nothing, but to cost something in the end.

The rate of interest on investments has been steadily declining for many years, but is now, in my opinion, as low as it is likely to go for many years to come. We are only beginning to realize the tremendous resources of our country, and until they have been fully developed, capital will continue to bring fair returns.

\$ _____

CHICAGO. _____ 191 _____

_____ after date _____ promise to pay to the order of

THE FIRST NATIONAL BANK OF CHICAGO.

at their office _____ DOLLARS,
for value received, with interest at the rate of _____ per cent. per annum, after _____
having deposited with said Bank as collateral security, for payment of this or any other liability or
liabilities of _____ to the legal holder hereof, due or to become due, or that may be hereafter contracted
or existing, however acquired by said legal holder, the following property, viz.:

Specimen

The market value of which is now \$ _____; with the right to call for additional security should the
same decline; and on failure to respond, this obligation shall be deemed to be due and payable on demand,
with full power and authority to sell and assign and deliver the whole of said property, or any part thereof, or
any substitute therefor, or any additions thereto, at any Brokers' Board, or at public or private sale, at the
option of said legal holder, or its assigns, and with the right to be purchasers themselves at such
Brokers' Board, or public sale, on the non-performance of this promise, or the non-payment of any of the
liabilities above mentioned, or at any time or times thereafter, without advertisement or notice. And after
deducting all legal or other costs and expenses for collection, sale and delivery, to apply the residue of the
proceeds of such sale or sales so to be made, to pay any, either or all of said liabilities, as said legal holder
shall deem proper, returning the overplus to the undersigned. In case of the insolvency of the undersigned,
any indebtedness due from the legal holder hereof to the undersigned may be appropriated and applied
hereon at any time, as well before as after the maturity hereof.

Collateral Note.

CHAPTER XXI.

THE STOCK EXCHANGE.

BY SEYMOUR EATON.

The general public too often regard the stock exchange merely as a noisy congregation of brokers who gamble in the securities of government and corporations, under the guise of legitimate business. A deeper insight, however, into the character and functions of these institutions will show the important part which they play in the financial mechanism of the country.

The exchanges of the world are instruments of enormous economic value in subdividing and distributing capital and in directing its employment in great commercial and industrial enterprises. When the Wall street man goes down to his office his first inquiry is for the two-o'clock prices on the stock exchange of London, which are received before ten o'clock in New York. The quotations of American stocks, with the accompanying price of consols and the Bank of England rate, give him the financial condition abroad translated into figures by the keenest financiers.

New York has no more entertaining public exhibition than its Stock Exchange. The visitor who, for the first time, looks down from a gallery upon its members in the act of transacting business, is astonished at the turmoil and confusion he witnesses.

There is no reason why bonds and shares should not be publicly dealt in, and in large quantities, as well as

dry goods, corn, or cotton. But, unfortunately, few stock exchanges confine their transactions to ordinary legitimate business.

The members are divided into two classes—those who execute commissions for others, and those who deal on their own account. Among the latter are the boldest and sharpest speculators of the day. You will look in vain in the quotations for the stock of dozens of corporations whose securities are among the choicest investments. It is upon fluctuations that stock speculation grows strong, and the largest profits are often made on the poorest stocks.

In London, Paris, Berlin, Vienna, and New York there are very large private banking institutions which buy and sell bonds and stocks on the stock exchanges of the world on commission. These great financial institutions negotiate loans for governments and great corporations and are the intermediaries in all the great movements of capital from one country to another.

The London Stock Exchange has scarcely more than one hundred years of history. In the early part of the 19th century the elder Rothschild was one of the giants "on 'Change," and it was in this business that he amassed the great fortune which makes the name of his house synonymous with money power. The Exchange occupies an old dingy building on Capel Court close to the Bank of England. The membership is not limited to a fixed number, as in Paris and New York.

One of the marked peculiarities of the Stock Exchange of London is the distinction between those who act as agents for the public, and who are properly called

brokers, and those who do business on their own account and are described as *dealers* or *jobbers*. On the Paris *Bourse* all agents are strictly forbidden to trade on their own account. The New York members who operate on their own account are called *room-traders* or *scalpers*, whose profits or losses consist in quick turns made during the day. They endeavor to detect immediate monetary influences without considering the ultimate tendency of prices.

Nominally the stock exchanges guard the public interest in declining to admit to their regular quotations the stocks of questionable enterprises. Before any shares, bonds, or debentures can be quoted in the official lists, application must be made in behalf of such issues and their bona fide character must be established.

The membership of the New York Exchange is limited to about 1,100 and seats becoming vacant by retiring members bring prices all the way from \$20,000 to \$75,000 each. Stocks and bonds sold in the *regular* way are deliverable to the buyer during exchange hours on the following day. Transactions are quickly collated and rapidly reported to the outside world.

In hundreds of offices in New York City and in other American cities can be seen a little instrument called a *ticker*, which automatically prints abbreviated names of stocks, with their prices, on a narrow ribbon of paper. These *tickers* are rented to these offices, as are telephones, by the local telegraph companies, and as fast as the sales are made the quotations are ticked off in thousands of offices in all parts of the United States.

There are many exchange institutions in the country. Nearly every large city has its stock exchange, and scattered in trade centers are cotton exchanges, produce exchanges, petroleum exchanges, mining exchanges, etc.

Technical Terms of Stock Exchanges.

The term *bull* is applied to those who are purchasers of stock for long account, with the purpose of advancing prices, as the tendency of a bull is to elevate everything within his reach. The term *bear* is applied to those who sell stock short, with the purpose of depreciating values. The *bear* operates for a decline in prices. To buy one stock and sell another with the expectation that the one bought will advance and the one sold will decline, is a *hedge*. The broker's charge for his services is called a *commission*, which in the New York Stock Exchange is one-eighth of one per cent. each way on the par value of the security purchased or sold. A *point* means one per cent. on the par value of a stock bond.

Stock privileges or *puts* and *calls* are extensively dealt in abroad and to some extent here. A *put* is an agreement in the form of a written or printed contract filled out to suit the case, whereby the signer of it agrees to accept upon one day's notice, except on the day of expiration, a certain number of shares of a given stock at a stipulated price. A *call* is the reverse of a *put*, giving its owner the right to demand the stock under the same conditions. A *put* may serve as an insurance to an investor against a radical decline in the value of stock he owns; a *call* may be purchased by a man whose property is not immediately available, but who may desire to be placed in a position to procure the shares at the *call* price,

if they are not below that in the open market when he secures the necessary funds.

The speculator usually trades on *margins*. If he has \$500 to invest he buys \$5,000 worth of stock, his \$500 being ten per cent. of the total amount. He expects to sell again before the remaining amount falls due. The *margin* is usually placed by the speculator in the hands of a broker as a guaranty against loss. Although these brokers are really agents for others, yet *on 'Change* they stand in the mutual relationship of principals. A *margin* is merely a partial payment, but a broker buying stock for a client on *margin* is compelled to wholly pay for it. If he has not the necessary capital his usual custom is to borrow from banks or money-lenders, pledging the stock as collateral security.

On foreign exchanges the element of credit enters more largely into the conduct of business. Where the credit of the client in London is established, his broker does not, ordinarily, call on him for any cash until the next "settlement day."

There are a variety of methods of securing what is called a *corner*, that is, a controlling interest in marketable stocks which others are compelled, owing to previously made contracts, to buy.

A *syndicate* is a party of capitalists who unite their resources to accomplish some financial object, such as the purchase of a property, a public loan, an issue of bonds or stocks, or any other undertaking requiring large capital. A *pool* is in some respects similar to a syndicate. The funds of individuals are put into a common undertaking with a view of manipulating particular securities

and dividing the profits. It savors of speculation if not of gambling.

A *boom* is an expansion of credit and a large inflation of value. A *panic* is an unusual fright among speculators which reduces prices and causes a general collapse of credit. A small *boom* is called a *flurry*.

The rules of the exchanges of New York forbid trading after closing hours, but in times of great financial excitement business overflows into the streets and hotels and is called trading *on the curb*. A *wash sale* is a fictitious transaction made by two members acting in collusion, for the purpose of swelling the volume of apparent business in a security, and thus giving a false impression of its value.

Stocks sell *dividend-on* between the time the dividend is declared and the day the books of the company close for transfer; after that they sell *ex-dividend*, in which case the dividend does not go to the buyer. When a company decides not to declare a dividend it is said to *pass its dividend*.

To sell stock *buyer 3* is to give the buyer the privilege of taking it on the day of purchase, or on any of the *three* following days, without interest; and to sell stock *seller 3* is to give the seller the privilege of delivering it on the day of purchase, or on any one of the three following days, without interest. *Buyer 3* is a little lower, and *seller 3* a little higher than *regular way* when the market is in a normal condition.

Bucket-shops are establishments conducted nominally for the transaction of a stock-exchange business, but really for the registration of bets or wagers, usually for small amounts, on the rise or fall of the prices of

stocks, there being no transfer or delivery of the commodities nominally dealt in. There were thousands of these counterfeit concerns throughout the country conducted without any regard for legitimate commercial enterprises.

Brokers.

Brokers are persons employed as middlemen to transact business or negotiate bargains between merchants or individuals. There are bill or exchange brokers who buy and sell foreign bills; note brokers who deal in promissory notes; stock brokers who buy and sell stocks for others; ship brokers who buy and sell cargoes in transit or upon arrival; insurance brokers who are middlemen between the insurance companies and the insured; custom house brokers who act for merchants in getting consignments through the custom house; and brokers in cattle, in dry goods, in coffee, in cotton, in drugs, in flour, in grain, in hides, in oil, in real estate, in sugar, in tobacco, in wool; in everything or anything that is bought or sold in large quantities.

By attending to one class of business constantly brokers acquire a more intimate knowledge of its various details, of the houses from which to buy, of the best market for sales, and of the credit of those engaged in it, than could possibly be expected of a general merchant.

The large manufacturers living outside of the great centers find it to their advantage to engage brokers to buy their raw material for them, so we find that each broker has his regular customers, and for a small commission he goes into the market and buys or sells as carefully as though he were spending his own money. It is for these reasons—from a sense of the advantages to

be derived from using brokers in the transaction of business—that they are so extensively employed in New York, Chicago, London, and other great cities.

In France the brokers are called *agents de change*, and their number in Paris is limited to sixty. They are severally obliged to give bonds for the prevention of abuses, and are not allowed to charge more than a fixed rate of commission.

Stock Companies.

To organize a stock company it is necessary for a number of persons to come together and make a certificate to the effect that they propose to form a company to bear a certain name, for the purpose of transacting a certain kind of business at a certain place. The certificate states that they propose to issue a certain number of shares of stock at a certain price per share, that the capital stock is to be a certain amount, and that the company is to continue to exist for a definite period of time. Blank forms for such certificates are supplied by the secretary of the state where the company is being organized and when properly filled out, signed, and delivered to him, he issues a license or charter to the persons making such certificate, giving them permission to open books, sell stock, and carry on the enterprise outlined. State laws regarding stock companies differ very largely.

Shares of Stock.

The usual par value of a share of stock is \$100. That is, if a company organize with a capital of \$50,000, they will have 500 shares to sell. Each person who buys or subscribes for the stock, that is, who joins the company,

receives a *certificate of stock*. These certificates are transferable at the pleasure of the owners. The transfer is made by a form of indorsement on the back of the certificate.

The men subscribing in this way become responsible for the good management of the business, and are obliged to act according to the laws of the state in which the company is organized. Usually they are responsible individually for the liabilities if the concern should become bankrupt.

Every person who subscribes owns a part of the business and is called a *shareholder*. All the shareholders must meet together, and out of their number they choose a certain number of directors. The directors choose a president and other necessary officers and fix the amount of salary which shall be paid such officers for their work. As a rule directors have no salaries attached to their positions. A regular meeting of all the shareholders is held at least once a year to elect the directors and hear the reports of the officers. It is necessary to file a statement of resources and liabilities each year with the secretary of state. Corporations are now also required to file a statement of their affairs with the collectors of internal revenue.

Capital Stock Increased.

The capital stock of a concern may be increased or diminished by a vote of the majority of the stockholders representing a majority of the stock.

Preferred Stock.

The preferred stock of a corporation is given to secure some obligation of the company and upon it dividends

are declared in preference to common stock. That is to say, if a man holds a share of preferred stock he will receive interest thereon out of the profits of the business before such profits are given in the form of dividends to shareholders generally.

Dividends.

The directors of a company after paying the expenses and laying by a certain amount for contingencies, divide the profits among the shareholders. These profits are called dividends, and in well managed companies the dividends which are declared quarterly, semi-annually, or annually usually amount to good interest on the shareholder's investment.

Surplus Fund.

It is not customary to pay a larger dividend than good interest on the investment. In some states some classes of corporations are not permitted to declare dividends larger than a fixed amount. The profits remaining after expenses and dividends are paid are credited to what is called a *surplus fund*. This fund is the property of the shareholders and is usually invested in good securities.

Treasury Stock.

It often occurs that a new company finds it necessary to set aside a certain number of shares to be sold from time to time to secure working capital. Such stock is held in the treasury until it is needed and is called *treasury stock*.

Guaranteed Stock.

When a stock is issued, upon which a certain dividend is guaranteed it is called *guaranteed stock*.

Watered Stock.

When stock is issued to the shareholders without increase of actual capital the stock is said to have been *watered*. A company may organize for say \$5,000 and may want to increase to \$50,000 without adding to the number of its shareholders. Each holder of *one* share will in this instance receive *nine* new shares, and in future instead of receiving a dividend on one share he will receive a dividend on ten shares.

Limited Liability Companies.

When the name *Limited* is affixed to a stock company's name, it signifies that each shareholder is individually liable to the creditors of the company for only the amount representing the value of the shares held by him. When the word *Limited* is not attached, it is understood that it is a *full* liability company in which each shareholder is individually liable to the creditors of the company. If a man should buy five shares in a *limited company* and the company should fail, for say \$20,000, the creditors could compel him to pay only the amount subscribed, namely \$500. In ordinary companies he could be compelled to pay the entire indebtedness if the amount could not be secured from the shareholders generally. Understand clearly that the name *Limited* printed after the name of a company, and which is required there by law, does not indicate in any way that the capital or credit of the company is limited.

Sale of Stock.

Stock is usually sold on certain explicit conditions, such as the paying of ten per cent. down and the balance at stated intervals. If the conditions which are agreed

to by the shareholder are not met his stock is declared forfeited, or he can be sued in the same manner as upon any other contract. Some companies organize with the understanding that a certain percentage of the nominal value of the shares is to be paid at the time of subscribing, and that future payments are to be made at such times and in such amounts as the company may require. Under these conditions the stockholders are assessed whenever money is needed to pay the company's expenses. Such assessments are uniform on all stockholders

ENDORSEMENTS

COPY OF BILL OR NOTE

STATE OF ILLINOIS, }
COOK COUNTY, } ss.

Be it known, That on this _____ day of _____ in the year of our Lord
one thousand nine hundred and _____ I, A. E. ANDREWS, Notary Public, duly commissioned and sworn,
and residing in the City of Chicago, in said County and State; at the request of THE FIRST NATIONAL BANK OF CHICAGO,
went with the original instrument, which is above attached, to the office of:

and presented it to the person in charge, and demanded payment thereon, which was refused:

Whereupon I, the said Notary, at the request of the aforesaid, did protest, and by these presents do solemnly protest, as
well against the makers of said instrument, the endorers thereof, as all others whom it doth or may concern, for exchange, re-ex-
change, and all costs, charges, damages and interest already incurred by reason of the non-payment of said instrument. And I,
the said Notary, do hereby certify that due notice of the protest aforesaid according to the statute of Illinois in this behalf, was put in
the Post Office of Chicago, as follows:

Notice for _____

" " _____

" " _____

" " _____

" " _____

" " _____

" " _____

The above named places being the reputed places of residence respectively of the persons to whom such Notice was directed.
In Testimony Whereof, I have hereunto set my hand and affixed my official seal the day and year above written.

Notary Public.

FEEB—Noting for Protest, 25 cents; Protest, 25 cents; Notices,

Seal and Certificate, 25 cents; Postage, _____ cents; Noting Protest, 25 cents.

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Notice of Protest.

Deposited for account of

190

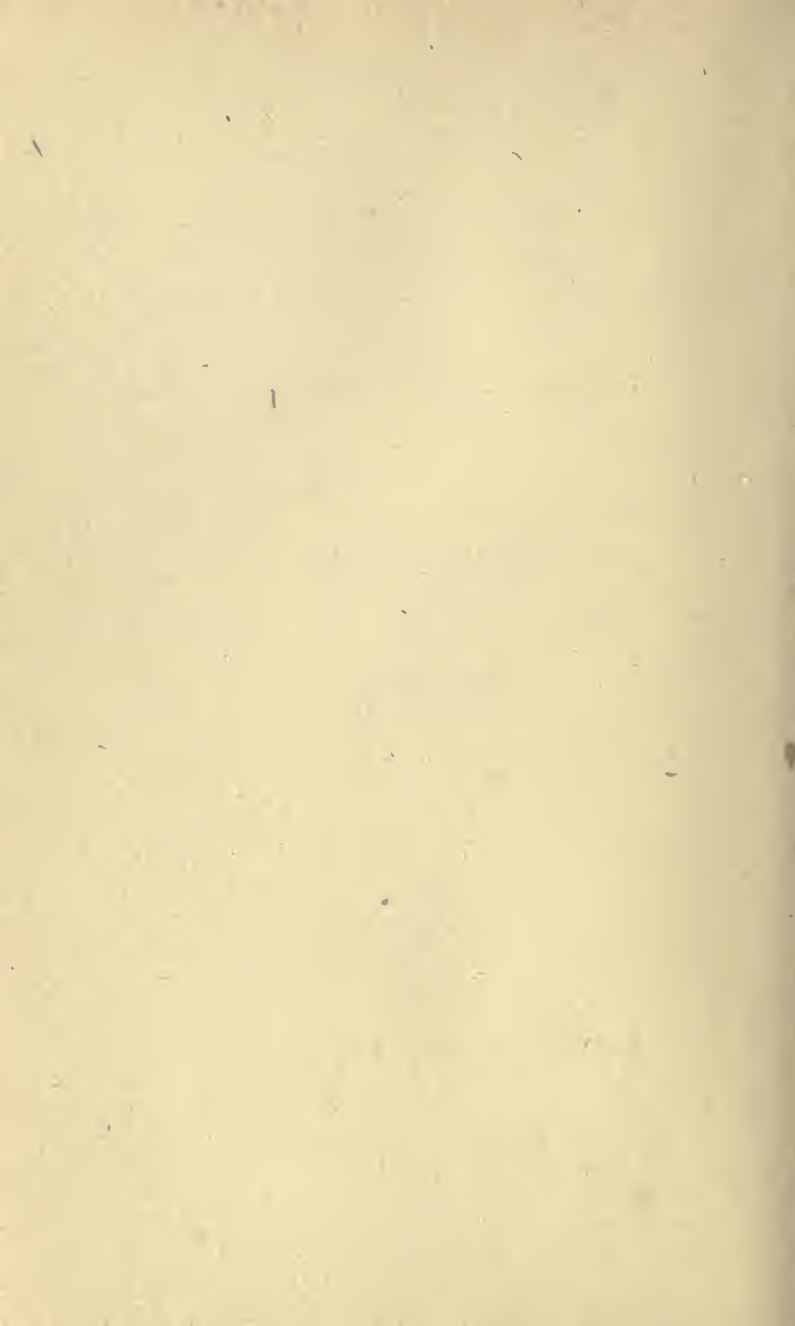
BEH W. ROWLAND & CO., PRINTERS, CHICAGO.

Checks and Drafts on Other
-Towns and Cities

CHECKS ON THIS BANK	CHECKS ON OTHER CHICAGO BANKS.

Deposit Slip.

**QUESTIONS
FOR
REVIEW**



BANKING AND FINANCE

QUESTIONS FOR REVIEW.

CHAPTER I.

Origin and Use of Money.

1. What is the true function of money and how early in history was it understood?
2. What were the earliest mediums of exchange?
3. What is the reason for the use of metal as money?
4. What is the nature of the first stamped metals?
5. Who first coined money under the Romans?
6. What was the origin of the English pound sterling?
7. Has the proportion between the pound, the shilling, and the penny always been uniform? How about the proportionate *value* of these coins?
8. What causes have contributed to the diminishment of the real quantity of valuable metal contained in coins?
9. What two different meanings are attached in economics to the word "value"?
10. Show how many things which have the greatest value in use have frequently little or no value in exchange, and vice versa.

CHAPTER II.

The Function of Banks.

1. What are the functions of a banker, broadly speaking?
2. Into what classes are banks divided?

3. What are the principal features of the business of banking?
4. What funds constitute the disposable means of a bank?
5. How are these disposable means employed?
6. How may the expenses of a bank be classified?
7. How are the profits of a bank reckoned?
8. Give a definition of a bank in commercial language.
9. How is a public bank generally regulated?
10. What is the nature of a private bank?
11. What is the security of those who transact business with a private bank?
12. What feature constitutes the great utility of banking establishments in commercial countries?

CHAPTER III.

The Origin of Banking.

1. What is the earliest evidence that ancient money changers allowed interest on funds lodged in their hands?
2. What form of banks existed in ancient Greece?
3. What methods were employed by the Athenian bankers?
4. Where do we find the first historic suggestion for the establishment of a joint-stock bank?
5. What were the bankers and banking houses of ancient Rome called?
6. How were the Roman bankers connected with the state?

7. What is the popular origin of the word "bank"?
8. What other derivation of the word bank has received support?
9. How did the Florentine bankers of Italy achieve their reputation?
10. Where was the first national bank founded in Europe, and when?
11. What were the characteristics of the Bank of Venice?
12. When were the first bills of exchange employed in commerce?
13. When was the Bank of Amsterdam established and to what cause is its origin ascribed?
14. What is the meaning of the term *agio*?
15. What was the general rate of the *agio* of Amsterdam?
16. How was the Bank of Amsterdam managed?
17. When was the Bank of North America established, and on what plan?

CHAPTER IV.

Early Banking in England.

1. What are the four principal branches of the business of modern banking?
2. When was gold first coined in England and when did it enter permanently into currency?
3. What was the function of the office of Royal Exchanger?
4. Why was this office re-established by Charles I?

5. When did the business of money-changing fall into the hands of the goldsmiths of London?

6. Why was the business of money-lending conducted during the Middle Ages under severe restraints?

7. When do we find the earliest mention in English history of a market rate of interest?

8. Who were the principal money-lenders in England during the evolution of banking?

9. Who were the Lombards, and what was their connection with English banking?

10. When was the taking of interest for money made legal in England, and at what rate?

11. When did the borrowing of money by bankers for loaning purposes originate?

12. What was the nature of the "goldsmiths' notes," the first kind of notes issued in England?

13. How long did the business of banking remain entirely in the hands of the so-called "new-fashioned" bankers?

14. How was the transmission of money effected during the Middle Ages?

15. When was the Bank of England established?

16. What objections were raised to its establishment?

17. How is the Bank of England governed?

18. How is the English bank rate of discount fixed?

CHAPTER V.

The Utility of Banking.

1. What was the first consideration that gave rise to the business of banking?

2. What evils are obviated by means of banking?

3. In what way does banking increase the productive capital of a nation?

4. What advantages are secured to persons engaged in trade and commerce, by means of banking?

5. How does the institution of banking facilitate the transmission of money?

6. In what way does banking save the time and expense of a merchant or retail tradesman?

7. How do banks aid business men by acting as references for them?

8. Show how the system of paying by means of checks enables one to preserve a record of expenditures.

9. What effect has banking upon the morals of society?

10. How do banks aid business by the dissemination of useful information?

CHAPTER VI.

The Methods of Banking.

1. What are the respective duties of the ordinary officers of a bank?

2. What qualities are particularly desirable in a bank clerk?

3. What is the actual usable cash of a bank represented by?

4. What are the regulations regarding the redemption of mutilated bills.

5. In what form are United States notes printed?

6. What is meant by "accurate" interest?

7. What is the character of the great bulk of the loans made by banking institutions?
8. What is the nature of a trust company?
9. What is the advantage to the business community of safe-deposit vaults?
10. What kind of bond is usually given by bank clerks and officers?
11. What kind of currency is often issued during periods of financial stringency?

CHAPTER VII.

The Clearing-house System.

1. What is the object of the modern clearing-house system?
2. Where do we find the final clearing-house of the world?
3. What is the daily amount of the bank clearings in New York City?
4. Sketch briefly the daily operations of a clearing-house in a large city?
5. What kind of rules are established by clearing-houses to prevent errors?
6. Where did the clearing-house idea originate?
7. For what other purposes besides banking is the clearing-house principle used in England?

CHAPTER VIII.

Deposits and Depositors.

1. What course is followed by a business man in opening an account in a bank?
2. What is the nature of a check?

3. What is the purpose of the depositor's bank-book?
4. Who is responsible for any loss in case of the fraudulent "raising" of a check?
5. Is a check dated on Sunday good?
6. Is a note executed on Sunday good?
7. Must a check necessarily be written on a printed form?
8. Why should a check usually be drawn "to order"?
9. Is it ever a good plan to place the address of the payee on the face of a check?
10. What is the correct method of indorsing a check?
11. How would you write a check to draw money for wages of employees?
12. How would you draw cash for your own use?
13. If you have power of attorney to indorse for a person, how do you sign your name?
14. Is a stamped indorsement of a check as good as a written one?
15. What should be done in case a check is returned marked "no funds"?
16. How are checks "certified"?
17. What is meant by "kiting" checks?
18. What is the best form of signature for a check, and the kind most difficult to forge?

CHAPTER IX.

Notes and Drafts.

1. What is the nature of a promissory note?
2. What is meant by the day of maturity of a note?

3. What are "days of grace"?
4. Are the words "Value received" legally necessary on a promissory note?
5. What is meant by "accommodation paper"?
6. Can a third party or innocent holder of a note recover its value even though it was illegally given, without a valuable consideration?
7. When does a note draw interest before maturity?
8. What is the signification of indorsing a note?
9. What is the object of writing the words "Without recourse" before or after an indorser's name?
10. When should notes be presented for payment?
11. What is meant by "protesting" a note?
12. What is the form of a protest notice?
13. What course should be followed after a payment is made to apply on a note?
14. What is the effect of the indorsement of a partial payment on the back of a note?
15. What is the nature of a joint note?
16. What is the usual form of a commercial draft?
17. How are commercial drafts usually collected?
18. What is the advantage of making collections by draft?
19. When should bills receivable and commercial drafts be placed with a bank for collection?
20. What is meant by a three-party draft?
21. What is the meaning of the slip with the words "No protest" often attached to the end of a draft?
22. What are the advantages of taking a note from a debtor?
23. What is meant by discounting a note or draft?

24. How are commercial drafts used in connection with bills of lading?

CHAPTER X.

Credit and Exchange.

1. What is the great function of credit in modern business?

2. How large a portion of the business of the world is done on a credit basis?

3. Name a modern instance of contract credit obligations being exchanged without giving any evidence of the debt.

4. What is the origin of the credit instruments which have developed into bills of exchange?

5. When were such bills first used, and in what form?

6. What is meant in commerce by the term "exchange"?

7. Give an illustration of the convenience of exchange.

8. What is meant by the *par of the currency* of any two countries?

9. What is the par of exchange between Great Britain and the United States?

10. What do we mean when we say that exchange is "in favor of" London or Paris?

11. What causes fluctuations in the price of gold?

12. Why are the imports and exports of bullion the real test of exchange between two countries?

13. Under what conditions is it advantageous to a

New York merchant to pay a debt in London by sending the actual coin across?

14. When would it be to his advantage for a New York merchant to buy a bill in London to pay a debt in Berlin?

15. To what extent is the rate of exchange affected by the balance of trade?

16. Name some other conditions that affect the rate of foreign exchange.

17. In what respects does the principle of domestic exchange differ from that of foreign exchange?

18. Upon what should the rate of domestic exchange be based under normal conditions?

19. When is it cheaper to ship gold to England than to buy sight bills?

20. What facts tend to make the city of London the financial center of the world?

21. What is the nature of a "crossed" check?

22. Why should Canadian silver coins be readily accepted at par in the United States?

23. What great advantages are enjoyed under the Canadian banking system?

24. What is the nature of a letter of credit?

25. How does a traveler obtain money abroad upon a letter of credit?

CHAPTER XI.

Banking in Canada.

1. Show how systems of banking are governed to a considerable extent by local or national conditions.

2. Is banking in Canada in any sense a monopoly?

3. Can it be said to be "free banking" as understood in the United States?

4. What is the main difference between the methods of the United States and of Canada in the matter of obtaining the privilege of opening a bank?

5. What is meant by the "double liability" of shareholders in banks?

6. What advantages accrue to the public from the fact that the capital of every Canadian bank is large and the number of banks comparatively small?

7. When do the charters of the Canadian banks expire and what is the renewal period?

8. What is necessary in a banking system to answer the requirements of a rapidly growing country and yet be safe and profitable?

9. Does the Canadian system possess all those qualities?

10. Under what conditions was fiat paper money for general circulation first issued in Canada?

11. How long was this the money of Canada and what resulted from its use?

12. When did the merchants of Quebec and Montreal begin to agitate for a bank of issue?

13. When was the first joint-stock bank in Canada created and under what title?

14. When was the first general bank act of the Dominion passed?

15. To what extent are Canadian banks empowered to issue circulating notes?

16. What are the distinctive features of the Canadian bank note issue?

17. How are bank notes secured in Canada?

18. What feature of the Canadian bank note system of issue acts as a safeguard against any serious inflation of the currency?

19. What is the benefit of the Canadian branch bank system to the worthy borrower, as compared with the United States national banking system?

20. What increased financial facilities for marketing of farm products were provided by the Canadian Bank Act of 1906?

21. Do Canadian banks give interest on active current accounts?

22. What reports are Canadian banks required to make to the Dominion government?

CHAPTER XII.

Bank Credits.

1. When did the introduction of credit departments in banks become general?

2. When did the American Bankers' Association adopt a uniform property statement blank for the use of borrowers?

3. When did the National Association of Credit Men adopt uniform statement blanks?

4. What are the basic principles of credit science as it is now understood?

5. Why is it now more imperatively necessary than ever for bankers to be fully informed upon the credit of borrowers?

6. Is a proper "statement of condition" of any value to the borrower as well as to the bank, and why?

7. What are the requirements of a modern bank credit department?

8. Why is it necessary that a statement of condition should be submitted to analysis?

9. Give a summary of the principles, mechanism, and rules of credit science.

10. What is the nature of the so-called "50 per cent. credit rule"?

11. How do certified public accountants and engineers assist the credit department?

12. About what percentage of commercial loans are made by banks to manufacturers? to commission men? to retailers?

13. What distinction is made by banks between "quick" assets and "fixed" assets?

14. What is the average proportion of quick assets to total assets of manufacturers? of commission men? of retailers?

CHAPTER XIII.

The Comptroller's Office.

1. What are the general duties of the Comptroller of the Currency?

2. What provisions were made in the Act of 1863 for keeping the office of Comptroller out of politics?

3. Does the affiliation of the office with the Treasury Department prevent its independence?

4. What are the functions of the organization department in the Comptroller's office?

5. What are the functions of the redemption department?

6. What is the function of the issuing department?

7. What must be set forth in the application for the creation of a national bank?

8. Are the great powers of the Comptroller derived from legislative enactment or are they largely assumed?
9. How are the national bank examiners appointed?
10. What are the duties of the examiners?
11. To whom do the bank examiners report?
12. What objections have been urged to the method of issuing bank note currency?
13. What is the course taken by the Comptroller if a bank impairs its capital?
14. In what respect does the office of the Comptroller differ from any other in Washington?
15. What responsibility falls upon the Comptroller with respect to the liquidation of the bank's assets?

CHAPTER XIV.

Monetary System of the United States.

1.—Coinage of Gold and Silver.

1. What were the bases of the first monetary system of the United States, established under the Act of April 2, 1792?
2. What coinage was provided for under the Act of Congress of 1873?
3. When was the trade dollar retired by Congress and its coinage prohibited?
4. When was the coinage of \$1 and \$3 gold pieces discontinued?
5. To what amount are the subsidiary silver coins of the United States legal tender?
6. To what amount are nickel and copper coin legal tender?

7. Why was the ratio of 15 to 1 adopted by Congress and when was it changed?

8. Has the so-called double or bimetallic standard ever been really effective in the United States?

9. How many different kinds of money circulate in the United States?

10. Under what conditions is gold coin legal tender for all debts, public and private?

11. Are gold certificates, silver certificates, and national bank notes receivable for all public dues?

12. What is the weight and fineness of the gold unit of value?

13. In what denominations is gold now coined and what are the coins called respectively?

14. What proportion of the gold coins struck at the mints of the United States have disappeared from circulation?

15. What is the amount of fine silver and the amount of alloy in the silver dollar? What alloy is used?

16. What is the exact present coinage ratio between gold and silver?

17. During what period in United States history was there no fractional silver coin in circulation?

18. Of what did the small change of the country consist during this period?

19. How are standard silver dollars issued by the treasurer and assistant treasurers of the United States?

20. What were the provisions of the Silver Act of 1890?

21. What is the meaning of the phrase 16 to 1 as applied to coinage?

22. How many parts of pure gold, pure silver, and copper alloy are there in standard bullion?

23. What are the coining values of an ounce of pure gold and an ounce of pure silver respectively?

24. What is seigniorage?

25. Does the United States government purchase gold bullion?

26. Is it authorized to purchase silver?

27. What is the meaning of free and unlimited coinage of gold as existing in the United States?

28. When may the mints lawfully refuse to receive gold bullion?

29. Under what conditions is subsidiary silver coined?

30. What was the purpose of the trade dollar formerly in circulation?

31. What is the meaning of the free and unlimited coinage of silver?

32. May coinage be unlimited without being entirely free?

33. Are national bank notes redeemable by the assistant treasurers of the United States?

CHAPTER XV.

Monetary System of the United States.

2.—Paper Money.

1. What was the nature of the first paper money ever issued by the government of the United States?

2. What qualities prevented the depreciation of this currency when other United States notes depreciated in value?

3. Were these notes ever made legal tender?
4. When were the well-known "greenbacks" or "legal tenders" issued, and in what quantity?
5. What change was made in the volume of United States notes outstanding after the panic in 1873?
6. What were the provisions of the Currency Act of March 14, 1900, with respect to United States notes?
7. When were gold certificates first issued and when was the practice temporarily discontinued?
8. Under what conditions can the Secretary of the Treasury suspend the issue of gold certificates?
9. When was the issue of silver certificates of the smaller denominations authorized?
10. What do the silver certificates represent?
11. Are silver certificates and silver dollars redeemable in gold?
12. What were the provisions of the so-called Sherman Act of 1890 with regard to the issue of Treasury notes?
13. What was the effect of the suspension of specie payments about January 1, 1862?
14. How was the place of the subsidiary silver coins supplied by those whose business required them to make change?
15. How did Congress meet the emergency?
16. What was the highest amount of fractional paper currency outstanding at any time?
17. When was the issue of circulating notes by national banking associations first authorized?
18. What were the provisions of the National Bank Act of March 14, 1900?

19. Under what conditions was the organization of National Currency Associations authorized by Congress?

20. What is the security required from banks for their circulating notes?

CHAPTER XVI.

The Federal Reserve System.

1. What is the main purpose of the Federal Reserve Bank system?

2. How many Reserve Districts are there, and where are the Reserve Banks located?

3. Who are the depositors in a Federal Reserve Bank? Who are the shareholders?

4. From what sources does the Reserve Bank derive funds for use in an emergency?

5. How are panics to be prevented under the operation of the Federal Reserve Act?

6. How is the Federal Reserve Board constituted, and what are its duties?

7. How many members constitute the Federal Advisory Council, and what are its duties?

8. How are the executive officers of a Reserve Bank appointed, and what are they called?

9. In what way does the new law operate as a practical guarantee of deposits in the member banks?

10. What is the effect of the Federal Reserve System on mercantile business and credit?

CHAPTER XVII.

Monetary Events Since 1786.

1. In what year was the double standard established in the United States, and on what basis?
2. When was the United States Mint established?
3. In what year was the double standard abolished in England and the gold standard adopted?
4. What is meant by "the average rate for silver per ounce standard"?
5. When was the ratio of 1 to 16 substituted for that of 1 to 15 in the United States, and how was it accomplished?
6. In what years were the gold mines of California and Australia discovered?
7. When was the maximum of the production of gold reached in California and what was its value?
8. What was the basis of the Latin Union between France, Belgium, and Switzerland, and when was it formed?
9. When was the silver standard in Germany replaced by the gold standard?
10. What important monetary events occurred in the United States in 1873?
11. When was the Scandinavian Monetary Union formed and what was its basis?
12. What were the provisions of the United States Silver Coinage Act of 1878?
13. When did the first International Monetary Conference in Paris meet?
14. When was the Bland silver law in the United States repealed and what was substituted therefor?

15. What was the amount of the production of gold in 1892, when it reached its maximum?

16. When was the gold standard adopted in India? in the United States? in Mexico?

17. When was the National Monetary Commission appointed in the United States and for what purpose?

CHAPTER XVIII.

Foreign Exchange.

Part 1.

1. What developments of modern business caused the establishment of foreign departments in large commercial houses?

2. Is there any special demand for young men with a knowledge of foreign exchange and foreign shipping?

3. What is a good definition of foreign exchange?

4. Why is the system of exchanging debts through the medium of commercial paper adopted?

5. What items are charged up to the United States as an offset amount, if balance of foreign trade is in its favor?

6. Why is a knowledge of the monetary system of foreign countries desirable for a young business man?

7. Is paper money ever accepted for its full face value outside of the country from which it emanates?

8. Is it ever legal tender in foreign countries?

9. What is the only international money, and why?

10. What is meant by the "fineness" of gold or silver coins?

11. What determines the value or price of the gold money of account in commercial countries?

12. Is the price of gold affected by either an absence or a scarcity of the supply?

13. How are gold shipments between the United States and Europe handled?

14. What is the "fineness" of commercial bars of gold?

15. What is meant by "money of account"?

16. What five countries are now comprised in the Latin Union?

17. What is the actual value of the English sovereign in American money?

18. What is meant by sterling exchange?

19. What is the meaning of the term "rate of exchange"?

20. What is the difference between *direct* and *arbitrated* exchange?

21. What causes contribute to the fluctuations in the price of exchange?

22. How can the par of exchange between any two countries be determined?

23. What is the *commercial par of exchange*?

24. Give a simple illustration of the commercial par of exchange.

25. State some of the peculiarities of French, German, and English quotations on exchange.

26. What is meant by the newspaper statement "foreign exchange closed firm"?

27. What is meant by "selling rates" in newspaper quotations?

CHAPTER XIX.

Foreign Exchange.

Part 2.

1. What is the basis of a foreign bill of exchange?
2. What three documents are comprised in a foreign commercial bill of exchange?
3. What is the nature of the bill of lading?
4. How are documentary bills of exchange usually sent abroad?
5. Does the duplicate set of the three documents serve the same purpose if the original set is lost?
6. What is the usual custom of exporters with regard to the disposal of commercial bills of exchange?
7. What is meant by stamping the draft "Surrender documents upon payment only"?
8. What is the foundation of most of our foreign exchange transactions and the principal source of profit in the business?
9. What is the advantage to manufacturers of the foreign exchange system?
10. What is meant by the initials "D. A." stamped upon a foreign draft?
11. What is meant by "D. P."?
12. What information should be obtained before commercial bills are bought?
13. What are hypothecation certificates?
14. Does the same rate of discount apply to the different classes of commercial bills?
15. Who fixes the Bank of England discount rate and how often is it fixed?
16. What is the "private discount rate" in England?

17. What is meant by "clean bills" of exchange?
18. What miscellaneous charges are made by European banks in connection with foreign exchange transactions?
19. What are the special requirements of importers in Germany with regard to foreign drafts?
20. Why is sterling exchange most convenient in the transaction of European business?

CHAPTER XX.

Investments.

1. Can all business enterprises be regarded as investments?
2. What is the more restricted meaning of investments in common use?
3. From what sources are funds obtained to pay for new issues of securities?
4. Can bank deposits properly be considered as "money in the bank"? If not, why not?
5. What percentage of all business transactions is done on credit?
6. How can credit be defined?
7. What has been the effect of the remarkable expansion of credit in the United States during the past few years?
8. Upon what does the price and salability of securities depend?
9. What is the general effect of public confidence on the stock and bond market?
10. Name some of the sources of funds available for investment.

11. What constitutes desirability in any investment?
12. Into how many divisions may the different kinds of investments offered in the United States be grouped?
13. How are government bonds chiefly held?
14. Upon what does the payment of state bonds depend?
15. Can states and municipalities be forced to pay their bonds through the courts?
16. What is the distinction between speculation and investment in the purchase of real estate?
17. Is improved property always satisfactory as an investment?
18. What should an investor in a real estate mortgage ascertain before parting with his money?
19. Are farm mortgages a desirable form of real estate investment?
20. What kind of corporation bonds have absorbed capital more than any other investment in this country?
21. What is the chief guide for an investor in railroad bonds?
22. What rule is it desirable to observe in regard to the purchase of public utility bonds?
23. What is the great difference between bonds and stocks?
24. What class of stocks has come into special prominence in the last few years?
25. How should an investor be guided in the purchase of "industrials"?
26. Is it wise for an investor to be governed by the offer of large interest?
27. What is the safest general rule for investors with regard to interest?

CHAPTER XXI.

The Stock Exchange.

1. What is the economic value of the stock exchanges of the world?
2. Is there any reason why stocks and bonds should not be publicly dealt in?
3. What is the distinction made on the London Stock Exchange between "brokers" and "dealers"?
4. What are "room traders" on the New York Stock Exchange?
5. In what way are the stock exchanges supposed to guard the public interest?
6. What are the meanings of the terms "bull" and "bear"?
7. What are "puts" and "calls"?
8. Describe the method of speculative trading on margins.
9. What is the distinction commonly drawn between a syndicate and a pool?
10. What is the advantage to a manufacturer of engaging brokers to buy their raw material for them ?
11. What is necessary to organize a stock company?
12. How is the transfer of a certificate of stock made?
13. What is the nature of the preferred stock of a corporation?
14. What is meant by treasury stock?
15. What is the signification of the word "limited" affixed to a stock company's name?



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